Canada's Biggest Bank Just Warned of a Recession! What Should Investors Do Now?

Description

With Canadian bank earnings season in full swing, investors continue to closely watch large banks' comments about the economic growth outlook. The biggest Canadian bank, **Royal Bank of Canada** (TSX:RY)(NYSE:RY), released its July quarter results Wednesday. The bank's adjusted quarterly earnings fell by 15% year over year to $2.55 per share — also missing Street analysts' consensus estimates.

More importantly, the largest Canadian bank's latest warnings about the possibility of a recession caught investors' attention. Before I highlight how investors can safeguard their investment portfolios from an upcoming recession, let's take a closer look at what Royal Bank just said about the economy.

Canada's largest bank warns of a moderate recession

In its latest quarterly earnings presentation, Royal Bank of Canada said that it expects GDP (gross domestic product) growth in Canada to slow in the second half of 2022, as the rising interest rate environment takes a toll on consumer spending. With this, the bank now expects that "Canada will slip into a moderate recession in the second quarter of 2023." It also anticipates that "the U.S. will slip into a recession during the first half of 2023." In addition, the bank expects Canadian house prices to decline over 12% on average from their peak.

This statement reflected a negative shift in the Canadian bank's economic outlook from the previous quarter. During the March quarter earnings conference call, Royal Bank's president and chief executive officer Dave McKay stated that the economy "could go either way" with a 50% chance of "a slight recession."

What should investors do now?

A recession, by definition, is an economic scenario where we see a decline in economic activity for a temporary period, which leads to a drop in a country's GPD. But it's important to note that Canada's biggest bank has actually warned of “a moderate recession” in the first half of 2023. The use of this term could imply that the bank doesn’t expect the upcoming recession to severely hurt economic activity and the GDP. Or maybe it doesn’t even expect this “moderate recession” last very long.

While it’s nearly impossible for anyone to accurately predict the intensity and the exact timing of a recession, it always makes sense for long-term investors to be ready for one. This is one of the key reasons why investors should focus on including some quality stocks from sectors like utility, consumer staples, and discount retailers in their portfolio right now, which tend to outperform the broader market in tough economic times.

One safe stock in Canada to buy now

Considering that, I find shares of **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) really attractive right now. This Hamilton-based company primarily focuses on generating electricity from renewable resources, including hydroelectric, wind, and solar. Based on its recent growth trends, this fundamentally strong utility stock can also be included in the growth stock category. Despite recent macroeconomic challenges, Brookfield Renewable’s stock continues to outperform the broader market, as it trades with more than 11% year-to-date gains at $50.41 per share. By comparison, the **TSX Composite Index** has seen a 5.7% value erosion in 2022 so far.

With consistently growing environmental awareness across the globe, you could expect the demand for power produced from renewable sources to grow rapidly in the coming years. This factor alone should be enough to accelerate Brookfield Renewable’s financial growth in the long run and help its stock continue soaring, despite temporary economic challenges like a recession.

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
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jparashar