I'd Buy These 2 Stocks in a Wobbly Market

Description

The summer season is usually a period when stock markets have lower volumes and a bit less volatility due to vacationing market participants. This year has been quite different, with the Fed "threatening" jumbo-sized rate hikes.

Undoubtedly, the Fed needs to hike, even as the economy shows signs of subtle weakness, specifically in the technology sector. Inflation is a tough beast to slay without taking some damage. With such a committed Fed, I think the long-term health of the secular bull is still on good footing. That said, many folks looking to make money over the near to medium term are finding themselves "fighting the Fed."

Fighting the Fed and hoping for a dovish 180-degree turn isn't investing. Instead of reacting to the macro, I think investors' efforts would be better rewarded by analyzing individual companies and how they stand to fare through the coming recession (or slowdown) and period of rising interest rates.

Though growth stocks seem to be rich with bargains, I'd still much rather prefer profitable companies that have solid balance sheets. I view sound balance sheets as an absolute must in a higher-rate world, especially for firms that stand to be heavily impacted by a modest economic downturn.

Indeed, playing it safe with profitable, liquid firms may not result in the greatest gains once the time comes to focus on the bull run that follows this bear market. That said, they can help tilt the risk/reward scenario in your favour, as investors pay way too much emphasis on every comment made by Fed chair Jay Powell.

At this juncture, I'm a big fan of **Spin Master** (TSX:TOY) and **CP Rail** (TSX:CP)(NYSE:CP).

Spin Master

Spin Master is a Canadian toymaker that's been holding its own quite well versus the TSX. Shares are flat year to date and appear to be stuck in a $40-50 consolidation range that's lasted for more than a year. As I've noted in prior pieces, it's these such flatlined stocks that can pop like a coiled spring once the tides finally turn in their favour.

At 13.1 times trailing price-to-earnings (P/E) ratio, TOY stock is pretty much in line with the leisure industry average. Though the toy industry is quite competitive, with many much larger rivals in the space, it's Spin's strong brand portfolio and a newfound focus on digital games that has me more than willing to pay up a premium price tag on shares.

During the pandemic, Spin's digital games business grew at an astonishing rate. Though the rate has come back down to Earth, the firm continues to double-down in gaming, with its latest acquisition of Swedish digital game studio Nordlight. Financial details weren't revealed. Regardless, Spin's intent is loud and clear: it's got game!

CP Rail

Speaking of game-changing acquisitions, CP Rail is the proud winner of Kansas City Southern assets. I'm a huge fan of the deal, even though it could weigh down the balance sheet for the medium term. With the economy possibly going into a recession, one would think that CP and the broader rail scene would be in the gutter. That is not the case, as CP is just one big day (3% jump) from hitting its all-time high of $106 and change per share again.

Driving the strength are high hopes for the second half. Though the economy could tilt into a recession, hot commodity shipments have helped CP weather the storm. Further, the rails tend to do a great job of riding out wobbly economies.

At 2.8 times price to book, CP trades at well below the rail industry average of 4.1. With an enviable rail network that spans two traffic-heavy North American borders.

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2. TSX:CP (Canadian Pacific Railway)
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