3 Canadian Stocks I'm Buying in This Volatile Market

Description

As the central banks fight inflation with interest rate hikes, the stock market continues to be plagued by volatility. Investors are highly sensitive to interest rate news. The **TSX** Composite Index fell 4.17% in a week as tensions grew surrounding the U.S. Federal Reserve's stance on inflation.

In the U.S., July inflation eased to 8.5% from 9.1% in June. This data sent the stock market on a growth track in mid-July in hopes that the Feds might ease interest rate hikes and even cut these rates in mid-2023. But Fed chair Jerome Powell gave a speech that hinted at interest rates continuing to rise and staying high for a longer period.

Powell's message diluted investor optimism, sending stocks on a downward path. On a brighter note, this volatile market has opened doors for opportunistic investors to buy three Canadian stocks.

Opportunity to buy three stocks

- **TransAlta Renewables** (TSX:RNW)
- **RioCan REIT** (TSX:REI-UN)
- **Constellation Software** (TSX:CSU)

Current market volatility is due to investor fears of higher interest rates. Now is a good time to buy dividend and growth stocks with strong fundamentals at a cheaper rate.

Dividend stocks to buy in a volatile market

Energy

Incorporated in 2013, TransAlta Renewables is a mid-cap stock with regular cash flows that helps it pay consistent monthly dividends. This renewable energy company develops, owns, and operates wind, gas, solar, and hydro projects. Its operating cash flow depends on the output generated by energy facilities. Hence, outages can reduce cash flow while full capacity power generation can increase it. Moreover, new contract wins and the addition of new plants also serve to boost its cash flows.

As it is a relatively new company in the energy sector, you may potentially see volatility in its earnings. It's a risky stock because the output of renewable energy plants depends on weather conditions. The company estimates its 2022 dividend payout ratio to be between 88% and 102%, which is hard to sustain for the longer term. But it aims to reduce this ratio to its target range of 80-85% by adding new contracts and renewing existing ones.

The growing interest in renewable energy coupled with government subsidies has created a strong environment for TransAlta to win new projects. The stock has dipped 8% year-to-date and has a dividend yield of 5.46%. That's an attractive yield to lock in. The stock is currently in a long-term uptrend as every new dip is at a higher price than its previous dip. Buying the stock at a dip can help you lock in an attractive dividend yield and moderate capital appreciation in the long-term.

Real estate

RioCan REIT has slipped 10.65% year-to-date as the real estate industry takes the heat of rising borrowing costs, which is slowing property price growth. Most REIT stock prices are falling due to a decline in the fair market value of their properties. But high inflation has increased RioCan's renewable lease spreads and its rental income. In fact, it has outperformed the broader equity markets this year, with close to 9% returns.

RioCan REIT has a 97.2% occupancy rate, and 85.7% of its tenants are stable. This hints that its monthly distributions are secure for the next few years. Also boding well for the security of RioCan's distributions is its solid development pipeline. It has zone approval for 38 projects, forming an area of 13.8 million square feet. The company expects to deliver 1.7 million square feet of these development projects over the next two years.

Now is a good time to buy the stock and lock in a healthy 4.98% annual distribution yield. It will rise when the economy recovers and property prices start trending back upwards.

A growth stock to buy in a volatile market

The above two stocks can provide you with regular dividends to mitigate portfolio losses. But a long-term growth stock enables you to enjoy a better capital appreciation if you buy it at the dip. Constellation stock dipped 12.6% from its August high and is trading below $1,950. Now is a good time to buy the stock as it can bounce back to the $2,200 average trading price at the slightest hint of optimism.

Constellation is an umbrella company that grows through the acquisition of small software companies with regular cash flows. In fact, it is one of the most talented companies when it comes to recognizing untapped value. The company also leverages another exciting growth strategy and in 2021, it announced a $200 million venture capital fund named VMS. The aim is to back early-stage organizations with tremendous upside potential who can become standalone entities within the

Constellation portfolio.

A market dip allows Constellation to buy more companies at a cheaper rate and accelerate its cash flows. This positions the stock to bounce back in an economic recovery. Constellation stock surged at an average annual rate of 30% in the 2017-2021 period. You can likely bet on a 12-15% hike in the short term and more than a 25% hike in a year.

CATEGORY

1. Energy Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:RNW (TransAlta Renewables)

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Author
pujatayal