2 Passive-Income Investments to Shield a TFSA From an Inflationary Recession

Description

High-yielding REITs (real estate investment trusts) seem like great plays to help shield your TFSA (Tax-Free Savings Account) from the ongoing impact of high inflation as well as the much-expected economic recession to come. Indeed, REITs may be less correlated to the broader equity markets, with betas (a gauge of volatility) on the lower end of the spectrum. That said, REITs are not immune to market-wide turbulence, as demonstrated by their wild swoons for most of the year.

Many "stable" REITs have been knocked down, as investors rushed to cash. Recessions can have quite an impact on a REIT's distribution growth and stability. Still, many of Canada's best-run REITs, I believe, are oversold, with yields that are much higher than where they are normally.

Without further ado, consider **Canadian Apartment Properties REIT** (TSX:CAR.UN) and **SmartCentres REIT** (TSX:SRU.UN), two of my favourite REITs that have been unfairly dragged lower over the past year.

Passive-income stock #1: Canadian Apartment Properties REIT

CAPREIT is an easy-to-understand residential REIT that tends to be quick to slip at the first signs of broader economic trouble. Shares plunged during the coronavirus crash of 2020 only to fully recover to meet new highs. Fast forward to today, and 2022 has dragged the stock right back to where it was in early 2020. Down around 30% from its high, income investors seem to be worried that vacancy rates will creep higher, as the lights go out on the Canadian economy.

Though CAPREIT is a residential REIT with resilient funds from operations (FFOs) through tough times, many may be quick to ditch shares, because it doesn't have the highest yield in the world. After a nasty slide, shares yields 3.3%, which is on the high end of historical averages.

CAPREIT will always be growth oriented, but as rates rise and rent collection rates fall under a bit of pressure, the wind at its back will shift to its head. In any case, CAPREIT is more than capable of powering through such a rough patch. The REIT has a front-row seat to the Vancouver and Toronto rental markets. These markets are unlikely to cool off for too long, even if the real estate market is due for a correction in 2023.

Passive-income stock #2: SmartCentres REIT

SmartCentres REIT is another high-quality REIT that's been tossed aside amid the market carnage. The retail REIT has been through tough times before, only to come rising out of the rubble in a hurry. With an ambitious plan to expand beyond retail real estate, Smart is likely due for some multiple expansion come the next bull market.

For now, Smart has a retail behemoth in **Wal-Mart** keeping its sails steady through what could be choppier market waters. Around two-thirds of its locations have a Wal-Mart, which is a defensive kingpin that could keep mall traffic elevated through a recession.

Shares yield a secure 6.8%, making SRU.UN one of the best passive-income plays for investors looking to get bang for their buck.

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