



## Don't Fear a Recession: 1 Dividend Aristocrat to Back Up the Truck On

### Description

There's so much fear and panic in the market these days that it's quite difficult to be a contrarian. It used to be easy when every dip was rewarded with quick gains in the following weeks. These days, the gravitational force of the bear market is hard to escape. Many beginners have thrown in the towel. Investing just isn't fun anymore, given stocks only seem to go down.

Undoubtedly, the 2020 stock market wipeout in high-multiple stocks was much needed. However, I think things are getting overblown. Many bubbles have already had the opportunity to burst, and other overvalued parts of the market are at risk of being severely undervalued. Still, nobody cares because the technicals stink, and the Fed is going to continue raising interest rates.

Inflation may have peaked, but it's been so stubborn. Further, the latest round of rate hikes may yet to have taken a toll on corporate earnings. Indeed, many are bracing for a slight dip in results moving forward. With such a low bar set ahead of coming quarters, though, I'd argue that stocks may have the means to march higher on little news.

Further, everyone seems to be thinking of worst-case scenario outcomes right now. That means expectations for much higher interest rates and a harsher economic climate. Heck, I've heard the 2008 recession being thrown around a couple of times!

## Things seem gloomy, but stocks look incredibly attractive today

Things seem gloomy today, but things never are as good or as bad as they seem in the heat of the moment. Some very smart market strategists, including **JPMorgan's** Marko Kolanovic, see no recession and think the Fed may be in a spot to overhike.

Indeed, it'd be nice if inflation could back off under its own power without the need for further jumbo-sized rate hikes. In any case, I think investors are too nervous when it comes to the consumer price index (CPI). A slight beat or miss on CPI numbers can have huge implications on markets.

Given commodity price plunges, waning consumer spending, tech layoffs, and a potential inventory

glut on the horizon, inflation's peak days may be numbered. As such, [investors](#) shouldn't expect worst-case outcomes while everyone else is running scared.

In any case, the days of easy money are over. That means the unprofitable firms that lost 85-90% of their value aren't coming back. They could have more room to the downside. That's why it's wise to focus on profitable firms. Dividend Aristocrats seem like terrific buys right here, because they're easier to value in a higher-rate environment. Nobody knows when rates will peak, but don't expect cuts anytime soon. Think profits and reliable dividends.

## CN Rail stock: Back on track!

At this juncture, I'm a huge fan of **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)). Shares are down 8% from their high, but the past-year trajectory is still positive. The railway is essentially in a bull market of its own and proves that you don't need to catch falling knives or chase momentum to do well in markets over time.

The \$110 billion rail behemoth has earnings to back up its rally. Even as a recession happens, CN Rail is less likely to fumble. At the end of the day, it needs to move shipments from Point A to B. And there aren't many cost-effective alternatives to accomplish such. If anything, rails may gain ground over trucking and other forms of transportation, especially as CN and its new chief executive officer look to improve operating efficiencies.

It's not easy to run a well-tuned, scheduled railroad. But Tracy Robinson has done a great job thus far, with a comfortable second-quarter 2022 earnings beat (\$1.93 EPS vs. \$1.75). I think she has more to deliver, as the company looks to drive its operating ratio (OR) higher. In recent years, the competition has caught up on the OR front. CN needs a way to return to the top, and a new top boss seems to be the way to go.

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