Alert: Growth Stocks Are on Discount During the Recession

### Description

The economy is clearly in a worrying place. Inflation is still running at 7%, while several economists predict Canada will enter a recession by 2023. Meanwhile, the market is down. The housing market is on the verge of a big dip, while stocks have already dropped. The **S&P/TSX Composite Index** is down 8.6% year to date.



In this environment, most people are too scared to invest. A Guaranteed Investment Certificate (GIC) offering 4.5% fixed returns seems like a better option, when stocks, bonds, and real estate are all facing double-digit drops and uncertain income. For most people, this is the best option.

But for investors willing to take the risk, there is an opportunity to outpace GICs and even inflation. Here's why a robust growth stock could still beat recession and inflation concerns in 2022 and beyond.

## Why are growth stocks on discount?

I define a "discount" as something being priced below its actual worth. If a stock is worth more than what it's available for on the market, it's undervalued and underappreciated. Right now, most growth stocks are underappreciated, because investors are worried the growth will slow down or disappear altogether.

In some industries, this fear is justified. Consumer brands, e-commerce companies, cosmetics, luxury products, travel, and hospitality companies will certainly see a dip in sales. That's because people can no longer afford these luxuries. However, some sectors have robust demand, because consumers and enterprises cannot avoid their essential products or services.

Healthcare technology, cybersecurity software, niche mission-critical software, and essential online retail are likely to keep growing, despite inflation and recession. Put simply, growth stocks with essential products and services should continue to see growth.

These stocks are beaten down, along with the rest of the market. That's why they're on discount.

# The best growth stock to buy

**Constellation Software** (TSX:CSU) is a particularly undervalued growth stock. The company owns a broad portfolio of niche enterprise software providers. Roughly half of its clients are government agencies or large corporations. Meanwhile, the software is for critical operations such as accounting, compliance, taxes, and inventory.

The business is mundane but lucrative. In its most recent quarter, Constellation reported a 30% surge in revenue and a 43% surge in net income.

The company's growth-via-acquisition strategy is also likely to outperform this year. Software companies have seen their valuations drop, so strategic buyers like Constellation can snap them up cheaply.

Constellation stock is currently trading at 4.4 times revenue per share. That's lower than most software companies and tech stocks. It's also cheap when you consider Constellation track record of growth and its opportunity to further consolidate the global software market in the years ahead.

Put simply, Constellation Software is a double-digit growth stock on discount. Keep an eye on this niche asset.



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