2 Defensive Stocks to Ride a Market Downturn

Description

Market downturns are never fun, but as a relatively new investor, you need to learn to make the most of the swoons that inevitably come your way. If markets only went up, as they did for most of last year, investing would be too easy, and there wouldn't be a profession surrounding the industry. Like with most things in life, there are good days and dreadful ones. 2021 was a spectacular year for market newcomers, but those who got too greedy ended up feeling the full heat of the 2022 bear market.

As investors hope for a dovish pivot by central banks, markets may be in for short-term relief. But investors should not look to chase any steep bounces like the one we've had in the past two days. The S&P 500 is up more than 5% in just two days. This goes to show the dangers of timing the market. While nobody will know if the bottom is in, investors should look to buy defensive stocks to ride out a coming downturn.

Indeed, a soft landing (minimal economic damage amid rising interest rates) may be wishful thinking right here. Regardless, defensive stocks can have your back and make you money when everyone is ready to cash out of the market rollercoaster at a loss.

Currently, **Hydro One** (TSX:H) and **Fairfax Financial Holdings** (TSX:FFH) seem like must-buys for cautiously optimistic investors who don't want to walk away from a 2022 stock market selloff emptyhanded.

Hydro One

Hydro One is probably the closest thing to a bond proxy in this market. The stock sports a 3.3% dividend yield, which is unremarkable on the surface, given rates on the 10-year Treasury note. Still, Hydro One is a cash cow of a business that can continue moving forward in a year that could see many other firms set back. Year to date, shares of H are up more than 4%. That's pretty good, considering the TSX nearly got caught in bear market territory at its worst!

At 20.1 times trailing price to earnings, Hydro One is a tad pricier than historical averages. That said, it's still way cheaper (and likely less risky) than bonds, as rates continue to creep higher. High regulations on its operating assets hurt growth, but they provide a lot of certainty. These days, certainty is in short supply, making H stock a top defensive pick for long-term thinkers willing to confront the recession head on.

Fairfax Financial Holdings

Don't look now, but Fairfax Financial Holdings is back in the spotlight, up 5% on Tuesday's session, adding to an already past-year rally. In the past year, the stock's up more than 30%, thanks in part to ever-improving underwriting performance. Despite the US$881.4 million net loss in the second quarter, Watsa continues to be confident as ever.

Further, Fairfax's takeover of Recipe Unlimited for $1.2 billion seems to be a sign that its Chief Executive Officer Prem Watsa (Canada's Warren Buffett) still has an appetite for bold moves. I think Watsa grabbed a steal amid the market carnage. As the firm's combined ratio continues to improve (now above 94%), while Watsa continues making deals at discounts, it'll be tough to keep his empire down.

Even after all the relative outperformance, FFH stock seems ready to run in the face of a downturn. Finally, the nearly 2% dividend yield is a fine bonus!

CATEGORY

1. Investing

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2. TSX:H (Hydro One Limited)

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