2 TSX Stocks to Buy in a Recession

Description

Recession fears continue to rise, and TSX stocks have responded by falling almost 9% in 2022. Unfortunately, the market has had to grapple with two corresponding issues.

Firstly, inflation has been skyrocketing. Prices are soaring, and it is playing havoc with the economy. Secondly, interest rates are rapidly rising, as central banks struggle to tame inflation.

The market shoots and asks questions later

The combination of these two potent factors could lead to a sustained period of slower global economic conditions. Anticipating these future challenges, the market always shoots first and asks questions later — hence, the fast stock market decline.

Fortunately, you can position your investment portfolio for both defence and offence in this type of scenario. Here are two top TSX stocks that could outperform in and through a recession.

A top TSX utility stock

Utilities are considered a safe place to invest during times of economic uncertainty. Their regulated base of revenues ensures a consistent and predictable return to shareholders. Everyone needs power, gas, and water, so demand for their services does not rapidly change.

Fortis (TSX:FTS)(NYSE:FTS) is a great Canadian blue-chip utility stock. It operates 10 power and gas transmission utilities across North America. Over the past 20 years, it has delivered a 12% annual average return.

When it comes to dividends, Fortis is a Canadian legend. This TSX stock yields a dividend of 4.3%. It just announced its 49th consecutive year of raising its dividend. This is a testament to the quality of its assets and operating model.

Right now, Fortis is investing in a $20 billion capital plan. It expects to grow its rate base by a compounded annual growth rate (CAGR) of 6% until 2026.

Likewise, it expects to grow its dividend annually on average by around the same rate. For an attractive mix of low-risk, high-income returns, Fortis is a great stock for investors looking to cautiously ride out a recession.

A top TSX consumer staple stock

Another recession resilient business model is in grocery and household goods. **Dollarama** (TSX:DOL) is a leader in this sector. It provides essential brand-name goods that are affordable to almost any income bracket. It operates over 1,400 stores in Canada and 377 stores across Latin America.

Last quarter, it delivered impressive results where sales and earnings per share grew by 18% and 37.5%, respectively. The company raised its outlook for fiscal 2023 by raising its same-store sales outlook to 6.5%-7.5%. Clearly, its merchandise and convenient locations are resonating with Canadians getting pinched by inflation.

Inflation or not, Dollarama has a great track record of delivering solid returns. Over the past 10 years, this TSX stock has earned a 660% stock return. Its stock has even outperformed consumer staple legends like **Costco**.

Up 31% year to date, I wouldn't call this stock a steal. However, it has a great track record of smart capital allocation and strong returns on capital. It also has plenty of opportunities to continue growing its store count and product mix. You often have to pay up for these quality businesses, but over the long term, it can pay off if you are patient.

The takeaway on recession resilient stocks

If you are worried about a long-term recession, these two TSX stocks could provide a nice combination of income and growth. Ultimately, the best way to battle a bear market is to find quality stocks that lead their sector and then hold them through a recession and hopefully years beyond.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:DOL (Dollarama Inc.)
4. TSX:FTS (Fortis Inc.)

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