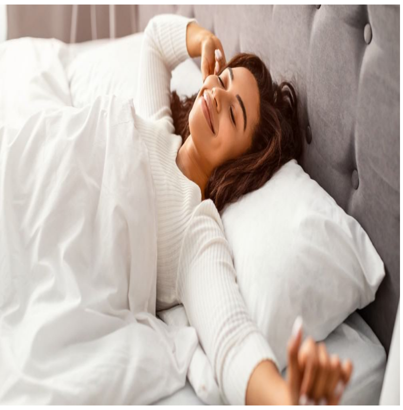

Top Retail Stocks That Could Surprise Investors

Description

Retail is a rough place to be right now, with economic headwinds beginning to move in. It's been pretty nasty for broader markets this year. And though it seems like a recession is unavoidable, investors should stick to their long-term game plans, so they're not left hanging once broader markets are ready to move on past the non-stop bad news of inflation, rate hikes, and geopolitical tensions.

Undoubtedly, retail stocks tend to face a lot of pressure once the economic climate cools. With winter coming and a holiday season that could be one of the most muted in years, it seems wise to take a rain check on the many top retail stocks that used to be mainstays in portfolios.

When times get tough, retail stocks tend to be among the first to feel the pain. For dip-buyers willing to embrace volatility en route to making considerable wealth over the years and decades, it's worth it to act as a contrarian at a time when most other investors would be willing to hand over their share at fractions of their worth.

Despite the tough quarters ahead for many Canadian retailers, one must remember that expectations have already been pulled back. Valuation multiples reflect muted sales and earnings growth numbers for the year ahead. Indeed, low estimates can be lowered further, as we've found out with some of this market's perennial underperformers. That said, the risk/reward tends to be slightly better during times when we perceive the risk/reward to be absolutely dreadful.

In retail, I'm a fan of **Spin Master** (TSX:TOY) and **Sleep Country Canada Holdings** (TSX:ZZZ).

Spin Master

Spin Master has been in quite a slog since the pandemic struck over two years ago. While shares have recovered, it's been tough to make money for those who missed the initial lockdown-era recovery surge. Recent quarterly numbers saw sales plunge. With a recession, there's reason to believe that further sales erosion (and more downgrades) could sink shares in 2023.

Despite the negativity and fresh analyst downgrades, I remain optimistic with a toy company that I think could take share in a recession year. The holiday pipeline looks intriguing, with intriguing toys like What the Fluff that could help Spin deliver strong quarter-over-quarter results.

Sure, Spin will take a few jabs and hooks to the chin as the recession rolls in. But as the firm continues to innovate and acquire, the looming sales growth slump is unlikely to last.

Sleep Country Canada Holdings

Sleep Country Canada stock is down around 48% from its all-time high. It’s been a terrible year for Canada’s leading mattress and sleep products retailer, with just north of 43% in losses year to date.

When times get tough, consumers tend to put their wallets into hibernation when it comes to discretionary goods. Mattresses, pillows, and boxsprings are pretty lofty purchases that one does not need to make on a consistent basis. As a result, Sleep Country tends to have quite lumpy results, with huge sales slumps in tough times and booms in times of prosperity.

After nearly getting chopped in half, I think Sleep Country stock is a bargain, with “too much recession” factored into coming estimates. With a 4.1% dividend yield, Sleep Country stock is not a value play to sleep on. Once a recession passes, the easy gains will probably already have been made by brave dip-buyers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TOY (Spin Master)
2. TSX:ZZZ (Sleep Country Canada)

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