Is Now the Right Time to Buy Consumer Discretionary Stocks?

Description

As is always the case, no matter what the investing environment, stocks in some sectors will naturally outperform businesses in other industries. However, when the market is tanking, and stocks are falling in value significantly, knowing which industries to invest in becomes even more important.

Not every industry is impacted equally by changing economic and market conditions. So, as inflation continues to impact consumers and a recession looms on the horizon, it's crucial to be extra thoughtful about the stocks you're looking to add to your portfolio.

Some of the hardest-hit stocks by a recession are those in the consumer discretionary sector. By definition, discretionary items are those which are not essential. So, although food is essential, eating out at a restaurant is not. Although having clothes on your back is essential, buying the newest outfits for your wardrobe is not.

This is crucial to understand. Because as inflation impacts consumers' budgets, and a recession will almost certainly cause unemployment to rise, Canadians will have less money to spend on non-essential goods.

Therefore, consumer discretionary stocks have a higher risk of being impacted by the current market environment.

With the increased risk that consumer discretionary stocks present, should you avoid them at all costs in this environment?

Although consumer discretionary is an industry that certainly has more risk in this environment, not all stocks are the same. Some companies have already started to see an impact on sales, while others continue to fire on all cylinders.

Furthermore, because many investors expect consumer discretionary stocks to underperform, a tonne of these companies have already lost value and now trade cheaply.

Therefore, while these stocks in general have more risk, there is still potential for investors to find high-quality investments in the sector.

Is now the time to buy stocks that sell non-essential goods and services?

As inflation has been surging for a few quarters now, we're already starting to see the impacts that consumers are facing and how it's impacting consumer discretionary stocks.

However, some stocks, such as **Aritzia** (TSX:ATZ), have continued to perform exceptionally well.

As you can see in the chart above, Aritzia sold off significantly in the first half of the year, as investors feared the worst. Not only is Aritzia a consumer discretionary business, but many of its items are premium quality and, therefore, can lean more toward the expensive side.

However, despite the market condition, Aritzia has continued to perform exceptionally well and has recovered much of its value as a result. Today, it trades just about 10% off its high due to its impressive performance so far this year.

But just because Aritzia has performed well so far in this environment doesn't mean it won't be immune to a slowdown in consumer spending over the coming months. Until the economic environment can improve substantially and inflation subsides, any and all consumer discretionary stocks will come with increased risk.

With that being said, though, because these stocks have increased risk, many of them trade at discounted valuations. So, for long-term investors looking to go bargain hunting, this environment could be an excellent opportunity to buy high-quality consumer discretionary stocks while they're undervalued.

The key is to ensure that whatever stocks you look to buy, you believe in their potential over the long haul.

There is no telling how long or how badly these stocks could be impacted in the short term, but if you find a top-notch stock that has years of growth potential, buying it ultra-cheap in this environment could make for an excellent long-term investment.

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