



## Better Buy: Aritzia Stock or Gildan?

### Description

It's been a treacherous year for the broader markets, with discretionary firms like retailers experiencing considerable pressure ahead of a potential economic downturn. Undoubtedly, nice-to-have goods tend to slip quickly going into a recession. Though discretionary stocks like **Aritzia** ([TSX:ATZ](#)) and **Gildan Activewear** ([TSX:GIL](#)) may seem like obvious sells before economic conditions worsen, it's arguable that there's already too much recession-driven sales erosion baked into their multiples.

Undoubtedly, markets look way out into the future. With a recession mostly factored in, the big question is how bad the recession will be, where rates will settle once central banks are finished hiking, and how long they'll stay elevated before they consider backtracking on recent rate hikes. There are a multitude of possibilities. With third-quarter earnings results mostly coming in better than expected, there's a good chance that firms can navigate the rougher market waters without sinking as they did back in 2008.

A soft landing is a definite possibility. However, the roughness of the downturn depends on how inflation reacts over the coming months and quarters. Recent consumer price index data suggests inflation is ready to go on the retreat. Though central banks may err on the side of caution by continuing their large rate hikes to put inflation away for good, there's a good chance that disinflation could be the theme of 2023.

Indeed, such a climate could allow central banks to pause for some period of time. For now, rate cuts seem doubtful. But a pause with the possibility of rate cuts far into the future could help soothe markets after nearly a year of bear market volatility.

Once markets do start moving higher again, I'd look for discretionary stocks and tech to lead the way, as defensives look to take a bit of a breather. Atop my discretionary wish list are Aritzia and Gildan.

### Aritzia

Aritzia is a Vancouver-based women's clothing retailer that's really flexed its muscles amid weakening macro conditions. The stock has sunk more than 45% from peak to trough, as investors braced for a

recession. Weighed down by inflation and supply-side woes, Aritzia seemed to be a name to dump ahead of a downturn.

Fast forward to today, and ATZ stock is in full-on rally mode. The stock could hit new highs by year's end if the firm continues to impress. As a mid-cap firm with a mere \$5.5 billion market cap, Aritzia can take market share amid more arduous industry conditions. Further, Aritzia's push into the United States may be tough to derail, even if consumers put away their wallets in 2023.

Chief Executive Officer Jennifer Wong stated that much of the growth would come from the U.S. market. If Aritzia's products stick in the U.S. market (they have thus far), the upside in the name could have the potential to be unfathomable.

Sure, Aritzia's latest fashions are nice-to-have purchases that can be put off in tough times. Given the massive rise in brand appeal, the Canadian growth story may be tough to stop, even with a Fed-induced recession.

## Gildan

Gildan is a generic clothing company that's down around 29% from its high just north of \$50 per share. Indeed, Gildan's manufacturing capabilities are the source of its strength. It can keep costs low and provide essential (and customized) clothes at deals that are too tough to pass up.

Despite cost advantages in generics, the firm faces pressure amid mounting macro headwinds. Unlike Aritzia, Gildan doesn't have the brand affinity or ability to charge premium prices during tough times.

The stock trades at 8.6 times trailing price to earnings, which is well below Aritzia's 33.1 times trailing P/E. Indeed, Gildan lacks on the growth front. But for [value](#) and yield seekers, the 2.42% dividend yield is worth picking up.

## Better buy: ATZ stock or GIL stock?

I'm a bigger fan of Aritzia here for the growth to be had from a U.S. expansion. I don't think a soft recession will be able to stop the firm in its tracks.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:GIL (Gildan Activewear Inc.)

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#### **Category**

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#### **Date**

2025/08/26

#### **Date Created**

2022/11/24

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