2 TSX Stocks That Could Rise if the Fed Pauses Rate Hikes

Description

All eyes are on the U.S. Federal Reserve, which is poised to slow its pace of rate hikes going into the new year. Undoubtedly, a pause of some sort could give the broader markets a bit of fuel to this current relief rally. With Santa Claus coming to town, and the potential for rates to flatline in 2023, a mild recession year may actually be a positive one for stock markets. Indeed, it's hard to imagine that stocks can go higher from here with a recession just months or so away.

Though the "r" word is, indeed, pretty scary, investors must realize that not every recession is a repeat of 2008. If anything, this bear market may have already priced in a lot of economic pressure — perhaps too much. This leaves room to the upside if economic data, inflation numbers, and Fed chatter goes right for investors.

Undoubtedly, it's never a good idea to time the markets or the Fed's moves. Still, valuations aren't too bad at this juncture. And in this piece, we'll check out two names that could have a big 2023 if all goes according to plan and the Fed hikes, with a potential reversal in stance. For now, rate cuts seem like wishful thinking. Still, anything is possible if the economy isn't able to achieve that soft landing that everyone is hoping for.

Soft landing or not, consider shares of **Magna International** (TSX:MG) and **NFI Group** (TSX:NFI), two hard-hit cyclicals that could swing to the upside once the coast is clear, and the next bull market is ready to set in.

Magna International

Magna International is a well-run auto-parts maker that's felt a lot of recession woe weighing down its shares. Despite strong demand expected for electric vehicle (EV) uptake over the next 10 years, Magna has really dropped like a rock, primarily at the hands of the macro picture.

At 18.83 times trailing price-to-earnings (P/E) ratio, Magna stock doesn't seem all that cheap compared to historical averages. Though demand for autos could wane through a recession year, supply-side woes are slated to keep improving. For now, though, the supply chain faces further disruption taking a bite out of profitability. Things won't be like this forever, though!

Once markets look forward to the post-recession environment, Magna is a name that could be quick to return to its all-time highs of around $125 per share.

With a swollen 2.92% dividend yield and a solid long-term growth story, it's tough to pass on the name while it's down 35% from its peak.

NFI Group

NFI Group is a bus maker that's pretty much suffered a worst-case scenario. Demands tanked during the pandemic and supply-side constraints have weighed heavily. The stock now finds itself at multi-year lows at $9 and change per share. Things seem pretty bleak, but the stock is getting incredibly cheap while it's off more than 83% from peak levels.

Looking ahead, electric buses could be a hot seller once the next bull market comes online. For now, though, there are more challenges for the firm to face, as it looks to limit losses and repair its balance sheet. The third-quarter preview projects a loss in the $15-17 million range. For a $764 million company, that's substantial. It won't be easy to stage a comeback, but if management can execute, the upside could be tremendous.

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