Where to Invest When the Economy Snaps Back

Description

The Canadian recession hasn't even arrived yet, but stock market action suggests investors are ready to move on. Indeed, most of last year was spent contemplating how bad things can get for the economy as the Bank of Canada continues its rate-hike push. With a hike pause in the cards in 2023, some pundits are calling for potential rate cuts in the back half of the year. It certainly seems like the fear of a mild recession, which may or may not happen, has been a tad overblown.

In any case, investors don't need to fear a recession.

We already lived through one in 2020 during the early days of the pandemic. As inflation crumbles and rate fears ease, there's a good chance the bull has already begun, even if the mild recession hasn't. That's why it's so important to stay invested and not time the markets, even though negative momentum and recession fears imply no gains (only losses) can be had by putting money into any security.

Now, just because markets have found their footing does not mean it's going to be like 2021 all over again. There were valuable lessons to be learned from the 2021 surge and 2022 bust. Valuation matters and if you don't ensure a margin of safety, you can lose quite a large sum in a hurry!

Looking past the recession to the economic snap-back?

In this piece, we'll check out two recession-sensitive stocks that could have the most room to recover once the market is ready to move on from a 2023 recession, if it hasn't already.

Of course, discretionary stocks are among the hardest-hit names when the worst of macro headwinds hit. If you're young, with a long-term (think five years or more) time horizon, I'd argue it's wise to nibble on the dip en route to a post-recession rebound.

At this juncture, **Jamieson Wellness** (TSX:JWEL) and **Canadian Tire** (TSX:CTC.A) stand out as too cheap for their own good as markets begin to stand firm amid muted expectations.

Jamieson Wellness

Jamieson is a vitamin maker that’s found its way into the medicine cabinet of many Canadian consumers. As a publicly traded company, Jamieson has been able to expand its footprint internationally, while experimenting with new product categories, including protein supplements.

Diversification will be a growth driver for this vitamin, mineral, and supplement (VMS) maker. As the company looks to push for growth, I expect more intriguing products to come out of the supplements category. At the end of the day, millennials and Baby Boomers can’t get enough protein it seems.

As recession hits, Jamieson may face increasing pressure from off-brand generics and private-label rivals. Amid inflation, cheaper off-brand products have been all the rage. Post-recession, I expect the tides to turn back in favour of the brands. In that regard, Jamieson is a standout play that’s poised to profit profoundly as it continues with its expansion into China.

Canadian Tire

Canadian Tire is a retail heavyweight that’s done a lot to stay relevant in the digital age of commerce. The one-stop brick-and-mortar shop continues to enhance its digital storefront. Its Triangle loyalty program and credit card businesses have also been intriguing divisions for the firm in recent years. Further, the timeless brand has used its exclusive brands and compelling marketing campaigns to maintain the business of Canadians.

Of late, Canadian Tire has been feeling a lot of pressure. The stock’s rebounding from a nearly 33% drop between 2021 and 2022. At 9.7 times trailing price-to-earnings, with a towering 4.2% dividend yield, CTC.A could make for a great pick-up once the tides turn back in favour of the bulls.

For now, discretionary sales could stay muted, while the financial side of the business faces headwinds as a result of recessionary headwinds. I expect the firm to manage through headwinds effectively as they have in the past.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:JWEL (Jamieson Wellness Inc.)

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