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BREAKING MARKETS

How To Invest During A Recession: Why Experts Pick These Stocks During Economic Turmoil

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TOPLINE With stocks falling into a bear market this year amid fears that aggressive rate hikes from the Federal Reserve will plunge the economy into a looming recession, top firms on Wall Street are advising investors to stick with stocks that have historically performed well during past downturns, such as consumer and healthcare companies.

Investors can ride out a downturn by sticking to these recession-proof stocks, experts say. GETTY IMAGES

KEY FACTS:

- Experts are increasingly warning that a recession looks "inevitable" as the Federal Reserve scrambles to combat surging inflation by raising interest rates at the fastest pace in 28 years, with a 75-basis-point increase announced earlier this week.
- Major Wall Street firms are now advising clients to ride out the downturn by buying defensive stocks with stable margins, steady

cash flow and solid dividends, especially in sectors like utilities and consumer food staples.
- History shows that in past recessions, consumer and healthcare stocks have tended to outperform while the rest of the market struggles: In the last four recessions since 1990, they were the only two positive sectors in the S&P 500, according to CFRA Research.
- The steepest market declines are usually among the "more economically sensitive groups," such as airlines, automobile manufacturers, hotels and casinos, says Sam Stovall, chief investment strategist at CFRA Research.
- With regards to specific subindustries, home improvement retail stocks like Home Depot were the best performers, while others that did well include footwear companies such as Nike, IT companies like Accenture and brewers including Boston Beer Co.
- Several other big-name companies have averaged positive returns during the last three recessions, including the likes of McDonald's, Walmart, General Mills, J.M. Smucker Co., Chesapeake Utilities and the National Beverage Corp., according to data from FactSet.

CRUCIAL QUOTE

Analysts at Wells Fargo said in a recent report that investors should "favor a full, market-weigh allocation" of consumer staples and utilities stocks thanks to their "traditional resilience in a slowing economy." The firm specifically expects food staples—retailers like Coca-Cola, General Mills and Kraft Heinz—to benefit from "an increasingly value-conscious consumer."

TANGENT

Experts also like energy stocks, which have been the best-performing market sector this year thanks to a spike in oil prices since Russia invaded Ukraine in late February. With oil and gas prices rising even further in recent weeks, companies like Chevron and Occidental Petroleum—both favorites of billionaire investor Warren Buffett—could see shares continue to surge higher.

WHAT TO WATCH FOR

"While rising interest rates should continue to provide a tailwind for value stocks," which have outperformed this year, "the data also supports a positive outlook for growth stocks," says Brad McMillan, chief investment officer for Commonwealth Financial Network. Amid recent market declines, certain growth sectors such as technology and consumer discretionary have become "more attractive."

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How Does The Market Perform During An Economic Recession? You May Be Surprised (*Forbes*)