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# 7 BEST INVESTMENTS DURING A RECESSION

Position your portfolio for resilience amid economic headwinds and recession risks.

**By: Kate Stalter - November 30, 2023**

If the economy heads south or goes into a recession, it's worth reviewing your portfolio to see if it's time for a realignment.

For example, diversifying into defensive sectors and bonds may offer some hedging against market downturns.

Allocating to stable dividend-paying stocks and considering alternative investments may also help safeguard your money, while potentially allowing you to capitalize on opportunities unique to economic contractions.

Additionally, identifying undervalued assets and industries poised for recovery can lead to substantial gains when the economy eventually rebounds.

## Expect the Unexpected

"From an investment standpoint, the 'recession call' may end up being irrelevant," says Jeffrey Roach, chief economist for asset management giant LPL Financial. "A recession could still emerge as consumers buckle under debt burdens and use up their excess savings, but a Fed sensitive to risk management might provide the salve necessary for more risk appetite."

Roach also says it's possible that the U.S. could experience a recession, yet still outperform other markets, making U.S. equities an attractive option for investors looking for calculated risk.

Still, here are seven types of investments that could position your portfolio for resilience if recession is on your mind:

- Defensive sector stocks and funds.
- Dividend-paying large-cap stocks.
- Government bonds and top-rated corporate bonds.
- Treasury bonds.
- Gold.
- Real estate.
- Cash and cash equivalents.

## Defensive Sector Stocks and Funds

Defensive sector stocks hail from industries that tend to remain stable or perform well during economic downturns. For example, health care, utilities and consumer staples typically hold up better than other sectors during a recession.

"Even during a recession, people need to eat, brush their teeth, shower," says Collin Plume, CEO of MyDigitalMoney, an Encino, California-based self-directed digital assets platform for individual retirement accounts.

But even if defensive sectors outperform others in a recession or market downturn, that doesn't mean they are immune to declines.

A solid choice in the health care sector among exchange-traded funds is Health Care Select Sector SPDR Fund (ticker: XLV), a defensive stalwart with $36 billion in assets under management and a 0.1% expense ratio. The top three holdings in XLV are industry giants: UnitedHealth Group Inc. (UNH), Eli Lilly & Co. (LLY) and Johnson & Johnson (JNJ), and they represent about 28% of its holdings. As a bonus, XLV has a 12-month yield of 1.7%.

## Dividend-Paying Large-Cap Stocks

Dividend-paying large-cap stocks can offer stability during recessions, as they often have established histories of profitability and strong balance sheets. Ideally, investors should look for stocks with a long track record of increasing their dividends, as that indicates financial strength through thick and thin economic cycles.

Those dividend payments can offset a stock-market decline, while providing income during an economic downturn.

However, those stocks' prices can still drop, even as they continue paying dividends, cautions Jason Werner, founder of Werner Financial in Indianapolis.

"Although the size and stability of these companies, paired with an income stream, make large caps a solid investment during recessionary times, the price of those holdings can still fluctuate, causing account balances to decrease," Werner says.

Christopher Barto, investment analyst at Fort Pitt Capital Group in Pittsburgh, cites three specific dividend-paying large caps to own through various economic cycles:

**Merck & Co. Inc. (MRK)**

Merck & Co., he says, has been a proven innovator in the health care space over the years with its blockbuster Keytruda drug. He adds that the company is heavily focused on shareholder return through buybacks, dividends, strategic mergers and acquisitions, and partnerships to bolster future revenue and cash flow.

**Air Products and Chemicals Inc. (APD)**

"Air Products has been a long-term compounder for shareholders," Barto says. "The business is currently investing in new projects to further diversify revenue and create value for shareholders."

APD also has a 2.6% forward dividend yield and has increased its net income year over year since 2018, according to data from YCharts.

**Thermo Fisher Scientific Inc. (TMO)**

Barto also points out Thermo Fisher Scientific, which has a six-year track record of boosting its shareholder payout. "Thermo Fisher has made strong acquisitions over the years to grow their market share in a very fragmented market with a long runway of growth," Barto says. "With over 70% of revenue recurring, the company is more predictable than others during times of uncertainty."

## Government Bonds and Top-Rated Corporate Bonds

Investors seeking stability in a recession often turn to investment-grade bonds. These are debt securities issued by financially strong corporations or government entities. They offer regular interest payments and a smaller risk of default, relative to bonds with lower ratings.

Their high credit quality means these bonds can play a defensive position within a portfolio.

Werner says high-quality fixed income can be a prudent investment choice during a recession, as investors would be shifting their focus from capital appreciation to protecting principal and generating income.

"Holdings like these offer a fixed interest rate and return of principal at maturity," he says.

The downside is potentially lower return compared with riskier assets, like stocks, but the reliability and lower risk make them an attractive option for conservative investors, Werner adds.

## Treasury Bonds

Treasury bonds are a specific type of government bond issued by the U.S. Department of the Treasury, offering fixed interest rates and longer maturities than other government bonds.

Investors often gravitate toward Treasurys as a safe haven during recessions, as these are considered risk-free instruments. That's because they are backed by the U.S. government, which is deemed able to ensure that the principal and interest are repaid.

Treasury prices tend to rise as demand surges, providing capital appreciation for investors. Additionally, the Federal Reserve's monetary policies during recessions often involve lowering interest rates, boosting the value of existing Treasury bonds.

## Gold

Gold has traditionally been considered a safe haven, due to its historical track record of holding its value, despite short-term fluctuations.

Investors getting their portfolios organized ahead of a recession often turn to assets with low or no correlation to stocks, bonds or cash.

***Read the entire article here: https://shorturl.at/AOR56***

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