2 Defensive Dividend Stocks to Hedge Against Economic Uncertainty

Description

The oil rout hasn't only hit the oil patch hard**.** It has also affected the outlook for Canada's economy, with 2015 GDP forecast to be 1.9%, well down from the 2.4% reported in 2014. This will have a significant impact on earnings across a range of industries, but there are companies that will continue to grow because of the defensive nature of their businesses.

Typically, these companies offer products or services that remain in demand despite a weak economy and this gives them the ability to not only grow earnings, but to also reward investors with steadily growing dividends.

Now what?

One stock that is hard to pass up because of its juicy 5% dividend yield is Canada's largest telecom **BCE Inc.** (TSX:BCE)(NYSE:BCE). While telecoms may not be the same defensive stocks they were pre-deregulation, their products and services are still an important part of our daily lives.

Furthermore, the depth and breadth of BCE's business, coupled with steep regulatory barriers, make its business almost impossible to replicate, giving it a wide economic moat. This, along with BCE's commitment to expanding its business and creating greater efficiencies, has allowed it to continue growing earnings. The 2014 earnings shot up a healthy 17% compared with 2013, allowing it to reward investors with yet another dividend hike.

In fact, given the strength of BCE's position and growing demand for its products and services, further dividend hikes are certainly in the cards, making it a must-have stock for any defensive income-focused portfolio.

When looking for solid defensive stocks, another favourite industry is electric utilities. The demand for electricity remains virtually unchanged regardless of the state of the economy. Industry incumbents also have a wide economic moat because of steep regulatory barriers associated with the industry and the significant capital investment required to enter the industry.

One of the most attractive companies operating in the industry is **Canadian Utilities Ltd.** (TSX:CU). Not only does it have an impressive dividend history, but it also has solid growth prospects that bode well for it to continue rewarding investors through further dividend hikes. A key strength is Canadian Utilities' diversified portfolio of assets spanning four continents with operations in electricity generation and transmission, natural gas distribution, as well as manufacturing and logistics.

The resilience of this business to economic downturns has allowed it to pay a dividend since 1972, and more remarkably, hike that dividend every year since then. Canadian Utilities now pays a very sustainable and attractive 3% yield.

The likelihood of further dividend hikes is extremely high. Canadian Utilities has entered the heavily under-serviced and recently reformed Mexican energy sector. This gives it access to the second most-populous country in Latin America and one of the region's fastest growing economies.

It is also continuing to expand its core operations by increasing the size of its electricity transmission business in Canada and Australia.

So what?

Even if economic growth continues to decline, both companies are well positioned to continue rewarding investors with steadily growing, but sustainable dividends. This makes them core defensive holdings for any portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:CU (Canadian Utilities Limited)

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