Bank of Canada’s Caution Is Good for These Top Dividend Stocks

Description

The Bank of Canada, on December 5, surprised the markets when it removed a hawkish tone from its policy statement to signal its dovish approach regarding interest rates hikes going forward.

Some analysts and economic forecasters were expecting a hawkish tone from the central bank after seeing a very strong job gains for November. Those gains fueled expectations that the bank will move from the sidelines after two consecutive rate hikes in summer and resume its tightening as early as January.

“While higher interest rates will likely be required over time,” the bank said, “the current stance of monetary policy remains appropriate.”

The bank noted that economic data has been coming in within range of what it was forecasting as recently as October, when the bank was expecting moderate growth for the rest of this year after a strong start to 2017.

Amid uncertainties related to NAFTA, a housing slowdown in Toronto, tighter mortgage regulations, and minimum wage hikes, some analysts say a rate hike wouldn’t be a wise move.

The Canadian dollar resumed its slide against its U.S. counterpart after the Bank of Canada held interest rates on hold at 1%, falling about half a cent.

Implications for dividend stocks

The Bank of Canada’s earlier hikes in interest rates had caused sell-off in some top dividend stocks. Dividend stocks generally weaken when bond yields rise. The reason is that bonds compete with dividend-paying companies for stable and regular income. As bond yields soar, investors shift assets from dividend stocks to bonds to reduce risk.

But now that expectations of higher interest rates are put on hold, investors may divert their attention to some quality dividend stocks which have a high co-relation with interest rate moves.

Canada's safest power and gas utilities, for example, are underperforming this year with their share prices suffering double-digit losses. **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) shares are down ~14% at the time of writing.

The bottom line

Canadian interest rates are still near historical lows. Even after 1% increase in the Bank of Canada's benchmark borrowing costs since July, all the central bank has done is remove the monetary stimulus, which it provided after a sudden drop in oil prices in 2014.

Canada's 10-year government bond yield is at 1.85% at the time of writing and still provides dividend investors a huge margin if they have high-yielding stocks, such as Enbridge and **BCE Inc.** (TSX:BCE)(NYSE:BCE) in their portfolios. The dividend yields on these stocks range between 4% and 6%.

Dividend stocks, over the long run, have proved some of the best investments, and in the current rate environment, it makes sense to pick some of the best dividend stocks to earn juicy yields.

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Date
2025/09/21
Date Created
2017/12/10
Author
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