3 Top Defensive Dividend Stocks to Hedge Against a Market Correction

Description

The turmoil engulfing stock markets globally has sparked considerable fear among investors that a major correction is looming. While there are signs that U.S. stocks are overvalued, having disconnected from underlying fundamentals, including corporate earnings and GDP growth, there are signs that major correction could still be quite a way off.

Nonetheless, in the current environment, it is prudent for investors to weatherproof their portfolios by adding high-quality dividend-paying stocks that not only have solid defensive credentials but also strong growth potential.

Typically, these stocks possess wide economic moats, operate in oligopolistic industries with steep barriers to entry, and provide goods as well as services that remain in demand no matter the state of the economy. Let’s take a closer look at three top dividend stocks that possess these characteristics and more.

Now what?

First is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI), which operates North America’s only transcontinental rail network. It has an enviable history of growth; it has hiked its dividend every year for the last 22 years.

It possesses solid growth prospects because rail remains the only cost-effective means of bulk freight transport for metals, coal, and crude. Demand for bulk freight transportation is rising because of the global economic upswing, which has caused demand for metals and coal to firm.

Nevertheless, its solid defensive attributes make it a must-have stock. Canadian National operates in an oligopolistic market, allowing it to be a price maker rather than a price taker, and this also allows it to contractually lock in revenues. When this is coupled with the lack of competition caused by the rail industry’s steep barriers to entry, it means that earnings are relatively immune to any economic crisis, making it a highly desirable defensive stock.

While investors wait for its share price to appreciate, they will be rewarded by that regularly growing and sustainable 1.7% dividend yield.

Second is **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), which, like Canadian National, operates in a range of oligopolistic markets, allowing it to be a price maker rather than a price taker as well as contractually lock in earnings.

It also owns and operates infrastructure assets in industries such as regulated utilities, electricity transmission, rail, toll roads, and telecommunications that have steep barriers to entry, thereby protecting it from competition. Those assets remain crucial components to modern commercial and social activity. That shields Brookfield Infrastructure from the worst effects of any economic downturn. For these reasons, the partnership's earnings are highly predictable, shielding it from the worst fallout triggered by market corrections and economic crises.

Not only does this make it a valuable hedge against uncertainty, but it endows it with solid growth potential as well. The global infrastructure shortage, expanding global population, and a stronger economy will all act as powerful tailwinds.

Brookfield Infrastructure has a solid history of rewarding investors with regular distribution hikes. It has increased for the last 10 years straight to give it a juicy 4% yield.

Finally, there is midstream services provider to the energy patch **TransCanada Corporation** (TSX:TRP)(NYSE:TRP). The company has been able to put many of its troubles behind it, and its diversified portfolio of long-life energy assets are performing well.

TransCanada possesses a wide economic moat, which, along with the inelastic demand for energy, virtually assures its earnings and protects it from market corrections as well as economic slumps. The consistency of its earnings, including a large majority being contractually locked in, has allowed it to reward investors with a long history of dividend hikes, having boosted its dividend every year for the last 17 years, giving it a tasty yield of almost 5%.

So what?

These stocks possess multiple defensive qualities that make them credible hedges against any market correction and a convincing means of weatherproofing investment portfolios against economic disturbances. While investors wait for the storm to subside, they will be compensated for their patience by regular, rising dividend payments.

CATEGORY

1. Dividend Stocks
2. Investing

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TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:CNI (Canadian National Railway Company)

3. NYSE:TRP (Tc Energy)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:CNR (Canadian National Railway Company)
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