Some of the Best Dividend Growth Stocks Are Plunging: Time to Buy?

Description

It doesn't appear to be the best time to buy dividend stocks. The central banks in North America are removing monetary stimulus — a move that's pushing bond yields higher and diminishing the appeal of income-producing dividend stocks.

In a latest sign that interest rates will move further higher, the Bank of Canada this week dropped references to taking a gradual approach and added language about the need to bring rates to levels that are neutral, or no longer expansionary.

The same day, BoC raised its overnight benchmark rate by a quarter point to 1.75%, the third hike this year and the fifth since it began tightening in 2017.

The story in the U.S. is similar as the Federal Reserve pursues its monetary tightening, sending bond yields soaring and reducing the appeal of owning dividend stocks.

Is it the right time to sell dividend stocks?

Despite this dismal outlook for dividend stocks, I don't think investors should be panicked and sell their income-producing holdings. In an environment where interest rates are forecast to rise for the next several years, investors should re-balance their portfolio and go heavy on stocks that grow their payout regularly.

According to a recent research by Merrill Lynch, stocks with strong dividend growth potential outperform those that simply offer the highest dividend yields.

"In a rising rate environment, we prefer stocks with strong dividend growth potential over stocks with simply the highest dividend yields, especially with dividend growth stocks still trading at a discount to dividend yield stocks," the report said.

Since 1999, during periods when the U.S. 10-year Treasury yields have risen by more than 150 basis points, the average return on the **Russell 1000 Growth Index** has been roughly 1,200 basis points greater than the average return on the **S&P High Dividend Aristocrats Index**, according to the report's finding.

Dividend growth stocks

In Canada, Enbridge Inc. (TSX:ENB)(NYSE:ENB) and **BCE Inc.** (TSX:BCE)(NYSE:BCE), are my two favourite dividend-growth stocks for income-seeking investors. Both companies have a great track-record of increasing dividends in good *and* bad times.

Trading at $40.03 at the time of writing, Enbridge stock has dropped 19% this year, while BCE stock is down 13% at $53.34. This pullback has pushed the dividend yields of these dividend payers to extremely attractive levels. Enbridge, for example, is now yielding 6.36%, which is one of its best returns in the past decade.

There is no doubt that the threat of rising rates and inflation is real, but I don't think bonds can provide the kind of return you need to beat inflation and earn decent income. This temporary setback to dividend stocks shouldn't be taken as a long-term shift to bonds.

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