2 Dividend Stocks to Own as Rate Fears Wane

Description

The Bank of Canada (BoC) just held its overnight benchmark rate at 1.75%, marking the third report in a row the rate has not changed. This has analysts wondering if the "hold" theme will persist through the end of the year.

Growth issues

Economic concerns in Canada and abroad are starting to impact the BoC's previous plan for continued rate hikes this year. The BoC started to increase rates in 2017 and raised the benchmark five times before hitting the pause button in late 2018.

Critics said the pace was too aggressive, and it appears they might have been correct. In the most recent report, Statistics Canada said the Canadian economy grew by just 0.1% in Q4 2018, representing the worst numbers in more than two years. On an annualized basis, the 0.4% growth is significantly below the 1.3% the BoC had expected.

The uptick in rates might be having a larger impact than expected on Canadian consumers and businesses that are carrying variable-rate debt. Business investment, exports, consumer spending, and housing activity all came in weaker than expected.

Beyond our border, the ongoing trade war between the U.S. and China might be spilling over into the broader international market, as cracks are starting to emerge in the global economy.

Are dividend stocks a buy?

Dividend stocks took a hit in 2018 amid fears that ongoing rate hikes could trigger a shift of funds out of utilities and telecoms in favour of fixed-income alternatives.

Higher rates also boost borrowing costs, and many pipeline and communications companies use debt to cover the costs of building and upgrading their infrastructure. As rates rise, increased payments to service the loans could put a dent in cash flow available for distributions.

Now that it appears the BoC is on hold or could even be forced to make the next move a cut, investors are starting to warm up to some of the go-to names in the dividend sector, and that could put a nice tailwind behind these stocks.

Two names that might be worth considering are **Enbridge** (TSX:ENB)(NYSE:ENB) and **BCE** (TSX:BCE)(NYSE:BCE).

Enbridge

Enbridge made good progress on its turnaround efforts last year. Debt is down, the company's structure has been simplified, and Enbridge is now focused on operating regulated businesses that generate reliable cash flow.

The company raised the dividend by 10% for 2019 and another 10% increase is expected next year. Investors who buy today can pick up a yield of 6%.

BCE

BCE reported solid numbers for 2018, and the outlook for this year suggests the Canadian communications giant is rolling along nicely. Earnings and free cash flow are expected to grow at a slow-but-steady pace, and BCE just raised its dividend by 5%. The current payout provides a yield of 5.4%.

The bottom line

If rates remain on hold for longer than expected or even start to reverse course, a flood of money could move back into these high-yield stocks. If you are searching for reliable dividend stocks for your portfolio, Enbridge and BCE might be interesting picks today.

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