3 Dividend Stocks That Will Benefit From Low Rates

Description

In the autumn of 2018, it appeared that the Bank of Canada was undeterred on its rate-tightening path. The same went for the United States Federal Reserve. Consumer pressures aside, central banks argued that economic fundamentals were strong and supported rate normalization into the next decade.

The market turbulence that erupted in the final three months of 2018 inspired central banks to do a U-turn on rate policy. A recent report from **Toronto-Dominion** Securities predicted that we will not see the Bank of Canada raise the benchmark rate until late 2020, which means the benchmark rate will likely remain below 2% into the next decade. Oddsmakers are not ruling out a rate cut.

Today we are going to look at three stocks that will benefit from this low-rate environment.

Rogers Communication (TSX:RCI.B)(NYSE:RCI)

Rogers is the largest wireless service provider in Canada. The Toronto-based telecom has seen its stock increase 3.4% in 2019 as of close on March 20. Shares were up 23% year over year.

Telecoms stand out as steady equities. Rising bond yields had generated downward pressure for many Canadian and U.S. telecom stocks. The rate tightening environment also makes it more difficult for these companies to commit to large spending projects and improve telecom infrastructure.

A pause on interest rate hikes is great news for companies like Rogers in the near term. The stock last paid out a quarterly dividend of $0.48 per share, which represents a 2.6% yield.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a St. John's-based international diversified electric utility holding company. Shares had climbed 7.1% in 2019 as of close on March 20. The stock was up 12.7% from the prior year.

Utilities also suffered from downward pressure due to rate tightening. Stocks like Fortis are solid substitutes for bonds because of a steady dividend history and the benefit of a wide economic moat. Fortis has also been able to commit to a significant capital investment plan in a low-rate environment.

Fortis is an elite dividend stock on the TSX. It has achieved 45 consecutive years of dividend growth. Currently it offers a quarterly dividend of $0.45 per share, which represents a 3.6% yield.

AutoCanada (TSX:ACQ)

AutoCanada is an Edmonton-based company that operates car dealerships across Canada. Shares had climbed 1.4% in 2019 as of this writing. However, the stock had plunged 45% year over year.

Auto sales dropped off in 2018 compared to the prior year. Rate hikes have applied even greater pressure on an overleveraged Canadian consumer base. Auto dealers suffer during credit crunches as consumers tend to wait longer to upgrade or switch their vehicles during lean times.

In its most recent fourth-quarter and full-year earnings release, AutoCanada said, “Higher rates will adversely impact borrowing expenses on variable interest debt such as vehicle floorplan financing, which would increase our costs.” The company also said that it would result in a harsher environment for consumers because of higher monthly loan payments.

A pause on rate hikes will not be a magic bullet for auto dealers, but it should alleviate some pressure in 2019 and beyond.

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