Warning: This Important Indicator Says Canada Is About to Plunge Into a Recession

Description

The last decade has been good to investors.

The **TSX Composite Index** is up smartly since the 2009 lows, with the index more than doubling once we account for reinvested dividends. Including reinvested dividends, **iShares TSX Capped Composite ETF** — the largest ETF that tracks Canada's benchmark index — is up 9.16% annually over the last decade. That's good enough to turn an original $10,000 investment into something worth a hair over $24,000.

But astute investors know it hasn't been a smooth ride. The first period of significant weakness was in 2011, when the market fell some 20% from peak to trough in the latter part of that year. Late 2015 and early 2016 weren't great to investors either, with the market falling close to 25% in just a few months. And just recently, in late 2018, the TSX Composite had another blip with stocks falling more than 10%.

The problem with trying to time pullbacks like these is there aren't many ways to see them coming. Until now. A proven recession predictor is currently flashing red, and the last two times this happened, we got the 2000 and 2008-09 downturns.

Let's take a closer look at what's happening and how you can protect your portfolio.

The yield curve

The yield curve, which measures the yield on government bonds, is usually pretty predictable.

It goes something like this:

Short-term bonds always have the lowest yield, since investors aren't taking any duration risk. We all have a pretty good idea where interest rates will be six months from now, but nobody knows what 20 or 30 years into the future holds. So, investors insist on getting a higher yield for taking on that additional risk.

But the yield curve is acting a little differently today. Short-term bonds — specifically the three-month t-bill rate — now yield slightly more than a 10-year bond. The difference isn't much, coming in at just 0.05%. Still, it's enough to get certain investors pretty excited, and not in a good way either.

The last time this happened was in 2007, just months before the economy started to implode. Before that the yield curve inverted back in early 2000, right before the tech bubble burst.

It's easy to see why investors are worried.

How to protect yourself

One of the beauties of dividend growth investing — besides the method providing a great path to ample retirement income — is dividend growers tend to experience lower volatility when the market goes down. We just saw risky oil and marijuana stocks crater during the latter part of 2018, while tried-and-true blue chips fell comparatively less.

BCE (TSX:BCE)(NYSE:BCE) is a great example. Canada's largest telecom boasts more than 19 million total subscribers across its wireless and wireline services. Total customer count grew approximately 3% last year. And remember, BCE owns some solid media assets as well, including top television channels (like CTV and TSN), as well as stakes in various sports franchises.

During the fall, when the TSX Composite was declining sharply, BCE shares were a pillar of strength. Shares stayed more consistent and fell far less than average. That's reflected in the stock's beta, which checks in at just 0.33. This means BCE is about a third as volatile as the average stock. That makes it the perfect company to own during a recession.

And remember, BCE pays investors a generous 5.4% dividend.

Another boring stock to own when things get tough is Canada's second-largest grocer, **Empire Company** (TSX:EMP.A). Empire is the parent company of various grocery banners like Sobeys, Safeway, Freshco, and, most recently, Farm Boy.

Empire shares were experiencing some weakness as the company struggled to integrate its big 2015 acquisition of Safeway, but those problems are largely in the rear-view mirror. Recent quarterly results saw same-store sales up 3.3% (excluding fuel), and earnings per share up more than 10% from $0.21 to $0.24. And although Empire's 1.5% dividend yield may seem a little paltry, the company has increased that payout by nearly 7% annually for the last decade.

It's obvious how Empire is a recession-proof stock. No matter how bad things get, we all have to eat. The company's beta proves it. The stock has a negative beta of -0.04, meaning shares will move in the opposite direction as the rest of the market. That's the kind of asset you want to own during tough times.

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2. TSX:BCE (BCE Inc.)
3. TSX:EMP.A (Empire Company Limited)

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