2 Top Infrastructure Stocks to Hedge Against Economic Risk to Buy Today

Description

Fears of a trade war between the U.S. and China continues to weigh on energy markets, global growth and Canada's economy because of China's position as Canada's second-largest trading partner. Financial markets have baked in a significant premium when it comes to Canadian stocks, seeing the **S&P/TSX Composite Index** down by over 2% from its record 2019 high.

The bond yield curve has inverted, which is seen a harbinger of a recession, with three-month Canadian government bonds yielding more than their 10-year counterparts. It has also seen a range of Canadian blue-chip stocks targeted by U.S. short sellers, including **Enbridge** (TSX:ENB)(NYSE:ENB), **Royal Bank of Canada**, **Toronto-Dominion Bank** and **TC Energy,** which make up four of the five most shorted stocks on the Canadian bourse.

While the fallout of the current trade storm may not be as severe as markets would have us believe, it's time to bolster your exposure to infrastructure. Infrastructure stocks possess solid defensive characteristics, and for a variety of reasons hold considerable growth potential, meaning that if the current uncertainty gripping markets ends abruptly, investors can still enjoy significant capital returns.

Let's take a closer look at two infrastructure stocks that should form a core part of every portfolio.

Globally diversified infrastructure giant

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) has become a go-to name for investors. It owns a portfolio of economically critical infrastructure including energy, utilities, transport, logistics and telecommunications that stretches across North and South America, Australia and Asia.

Brookfield Infrastructure possesses a wide almost insurmountable moat that protects its earnings. This is created by steep barriers to entry, including significant regulation and capital requirements, which see it operating in oligopolistic markets, allowing it to be a price maker rather than a price taker. The contracted nature of its earnings and relatively inelastic demand for many of its assets further protects earnings.

Many of those attributes also ensure that Brookfield Infrastructure's earnings will expand at a decent clip when the economy is expanding. The partnership's growth profile is enhanced by its entry into the rapidly growing data centre industry along with other opportunistic acquisition and strategy of recycling capital. While investors wait for that to translate into a higher unit price, they will be rewarded by its regular sustainable distribution yielding a juicy 4.7%.

Canada's most important energy stock

When talking about energy many investors look to the fortunes of the oil sands, Enbridge is arguably Canada's singular most important energy company, providing vital infrastructure including the pipelines and storage facilities needed to connect the oil patch to vital U.S. refining markets.

The lack of pipeline exit capacity is already having a sharp impact on Canadian energy stocks, causing local oil inventories to reach record highs and the benchmark prices for Canadian crude, including Western Canadian Select, to plummet to record lows, forcing Edmonton to introduce mandatory production cuts in an effort to drain oil inventories and boost domestic benchmark oil prices.

Those cuts are unlikely to be lifted until the end of 2019, despite the negative fallout they triggered for the energy patch and Midwest U.S. refiners, making it uneconomic to ship bitumen by rail and creating a supply shortage for refineries.

The existing demand for the utilization of Enbridge's infrastructure means that earnings will continue to grow as additional capacity is added to its network from a $16 billion portfolio of secured growth projects entering service between now and 2023. Growing Canadian oil production will create additional demand for the use of Enbridge's pipeline network, which is already responsible for transporting 25% of the crude produced in North America.

Enbridge's simplified capital structure and reduced debt leads to lower costs and bodes well for greater financial flexibility as well as profitability, supporting earnings growth and the targeted 10% compound annual growth rate (CAGR) for its dividend. The energy infrastructure giant has hiked its dividend for an impressive 23-years straight, giving it a juicy 5.8% yield.

Foolish takeaway

Both stocks possess strong defensive characteristics which, when coupled with almost insurmountable economic moats, growing earnings and juicy sustainable dividend yields, make them attractive additions to any portfolio and hedges against growing economic uncertainty.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. NYSE:ENB (Enbridge Inc.)

3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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