2 TSX Index Stocks to Buy As Bond Yields Fall

Description

Government bonds in Canada and the U.S. are catching a nice bid right now, and the result is much lower yields.

The bond rally is a result of increasing fears about potential threats to the North American and global economies due to the ongoing trade battle between the U.S. and China, as well as further uncertainty regarding Brexit. In the U.S., the yield on the 10-year treasury has dropped from 3.24% in early November to 2.24%. In Canada, the five-year bond rate is down from 2.45% to 1.45% over the same time frame.

How should investors react?

Lower bond yields can have a positive impact on certain industries. Let's take a look at two stocks that might benefit as a result of the lower yields.

BCE (TSX:BCE)(NYSE:BCE)

BCE is trading at a 12-month high. Seven months ago, nobody wanted to touch the stock with a 10-foot pole. The turnaround is partly due to the steady earnings results and guidance of solid free cash flow growth for 2019. The other half of the story is the reversal in the bond market.

BCE and other go-to dividend stocks took a hit when interest rates and bond yields were rising. Investors feared that there would be a rush out of the stocks to safer investments providing improved returns. Now that the spreads between the dividend yield and the return are once again widening, investors can get from GICs, BCE is back in favour.

The Bank of Canada is expected to refrain from further rate hikes until at least 2020, and analysts are speculating that the next move in the United States could be a rate cut. In this environment, the bond rally should find support and BCE's stock could continue to rise. In fact, it wouldn't be a surprise to see the share price hit $65 before the end of 2019.

The stock provides a dividend yield of 5.1%.

Toronto Dominion Bank (TSX:TD)(NYSE:TD)

TD gets most of its revenue and profits from retail banking operations in Canada and the United States. The bank has a very large Canadian residential mortgage portfolio, and part of the reason that a number of short sellers have targeted the Canadian banks is a bet that a wave of defaults could be on the horizon in the housing loans.

The drop in bond yields will help reduce that risk. The banks generally set their five-year fixed mortgage rates based on the five-year Canadian bond yield. With yields falling, mortgage rates are also coming down, which should help existing homeowners renew their mortgages at rates that won't force them to sell.

In addition, falling rates enable more first-time buyers to enter the market, which should boost mortgage sales.

The bottom line

BCE and TD are industry leaders with reliable and growing dividends. If you're searching for solid buy-and-hold picks for your portfolio, these stocks deserve to be on your radar today.

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