Recession Fears? Buy These 2 Defensive Dividend Stars Ahead of Time!

Description

If there's anything the last few weeks have told us, it's that the TSX is on a hair trigger right now. Though there has since been a broad recovery, the U.S. knocked our biggest stock exchange for six at the end of last month, with losses felt across most major sectors.

Global forecast analysts Oxford Economics are currently giving Canada a 45% of recession in the next 12 months. According to their report: "Factoring in recent economic data, financial market developments and fiscal, monetary and trade policy risks, we believe that the possibility of a recession in Canada is real and rising."

Investors worried about a potential recession should be getting defensive with utilities stocks like **Fortis** (TSX:FTS)(NYSE:FTS) and **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) right now. With mainstream commentators starting to discuss the possibility of a widespread Canadian downturn, these are the kinds of dividend studs you need to stay protected.

Let's take a look at how these two major utilities companies are doing at the moment, and why their dividends might be suitable for a low-risk investor looking to strengthen a passive income portfolio.

Fortis

This true dividend stud currently pays its shareholders $1.78 a share, which tots up to a yield of 3.42%. While that's not as high as it could be, and doesn't touch the top 25% of dividend payers on the TSX index, the sheer size of Fortis' market share makes it a contender as any portfolio's centrepiece.

Utility stocks like Fortis tend to do well when the market is in turmoil, since they're seen as defensive. Fortis in particular has a diversified enough mix of assets and geographical reach to stave off a downturn, even if it's a lot broader and deeper than the dip experienced by the TSX index over the past few weeks.

And it could well be: Canada's GDP has risen by a meagre 0.2% in the last six months, against a backdrop of a domestic yield curve inversion, stretched house prices, and higher levels of construction. All of this may lead a cynical economist to be inclined that only safe haven assets like Fortis are even worth considering right now.

Algonquin Power & Utilities

Still somewhat overlooked, this diversified alternative power stock is one of the hidden gems of the renewables section of the TSX index. With a strong mix of energy sources that covers gas, hydro, solar, thermal and wind, and with a geographical reach that extends beyond North America, it's a solid buy for a portfolio light on green utilities.

What makes Algonquin Power & Utilities so attractive as a passive income play is its dividend of $0.51 a share, representing a yield of 3.61%, and commitment to increasing that yield by 10% per year over the next few years. Its other big draw is its acquisition-hungry management style. The most recent purchase was the **Bermuda Electric Light Company**, rounding out an impressive portfolio of assets that continues to grow.

The bottom line

It's clear that the TSX is vulnerable to trade tensions right now. If these continue and combine with other economic risks, the Canadian economy could be in for a rough ride. Both utilities listed above should be able to provide safe dividends through a recession for relatively secure passive income.

CATEGORY

1. Dividend Stocks
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