Recession Risk: Hide in These 2 Stocks As Interest Rates Fall

Description

The international monetary policy arena is a frightening one these days. Although rates have barely moved, central bankers are getting ready to lower interest rates once again. While rate cuts are by no means a done deal, it's highly likely that they will begin to move lower again sometime in the next couple of years. The reasoning comes from economics 101. Simply put, low rates encourage spending, which in turns stabilizes the economy.

Unfortunately, the lessons of the past decade (three decades if you look at Japan) have not taken hold with our leaders. While we did manage to avoid a depression due to the huge cuts in interest rates, monetary policy has led to inflated debt levels and asset prices that don't seem to be supported by global growth. People don't have much more room to borrow; therefore, they can't spend.

Luckily for borrowers, cheaper interest rates allow will allow you to take on more debt. Asset prices will continue to become even more inflated. We will continue to live in wonderful, debt-ridden times. Therefore, you should probably be ready to hold onto your dividend stocks for the foreseeable future.

If you had purchased dividend stocks like the utilities and telecoms last fall, you're probably doing pretty well. Well-known dividend-payers like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Emera Inc.** (TSX:EMA) have seen their yields fall considerably as their stock prices have risen.

Fortis' dividend has been reduced to around 3.5% at the share price, and Emera has gone from around 6% last fall to close to under 4.5%. The stocks are also now trading at all-time highs after experiencing price appreciation of around 20-30% from their lows.

These companies are regulated, meaning that they will probably be able to maintain and raise dividends in the future. As such, utilities should continue to pay out these handsome dividends, as their earnings churn out single-digit gains for years.

These stocks have been excellent performers for many income-focused investors over the past few months. As it's likely that rate cuts are very possible, their share prices may hold up quite nicely for some time.

Of course, if positive data like such as the latest Canadian unemployment numbers continue to roll in and inflation continues to move higher, it's possible that a rate hike may surprise investors. If occurs, those dividend stocks will probably come down hard once again as they did last year. But the likelihood of a hike at the moment still seems low, and the long-term performance of strong dividend stocks like these two utilities has been so good that it can't hurt to hold your position for the long run.

If only central banks would learn and keep rates steady for the time being. It appeared that consumer balance sheets were finally starting to get in better shape. Borrowing in Canada was down, as evidenced in the Canadian banks' latest quarterly results. Holding rates steady could finally help Canadians get their fiscal houses in order, ultimately leading to a stronger economy. Unfortunately, the government wants the debt party to continue.

Rates haven't fallen yet, and I hope they won't. If Bank of Canada can hold the line, our country will be better off in the long run. But politics don't focus on the long run. Hold onto those dividend stocks like Fortis and Emera just in case. Ride them down with pleasure if Bank of Canada begins to raise rates once again and add some more at lower levels. Collect your income from your stocks. Who knows? Maybe one day you'll be able to get some income from your cash again, too.

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