Get Defensive: This Top Dividend Stock Is Recession-Proof

Description

With the U.S. manufacturing sector contracting for the first time in a decade, a recession looks increasingly possible on the other side of the border. Investors of a technical bent may have noticed that the purchasing managers' index (PMI) in the U.S. fell from 50.4 to 49.9 in August, dropping below 50 for the first time in 10 years. This likely won't mean good things for the Canadian economy, given that the U.S. is our biggest trading partner.

Throw in the potential disruption to the global economy posed by Brexit, and there is a strong case to be made for a recession on the other side of the Atlantic that could be contagious for North American markets. In fact, as politicians across the pond wrestle with the logistics of a divorce from the E.U., there is every reason to believe that Brexit will be messy.

In short, a "no deal" Brexit has the potential to severely impact one of the world's major economic powers and comes at a time of increasing fiscal uncertainty in North American markets.

Electricity production is a recession-proof investment

With warning signs flashing, TSX stock investors may want to get their portfolios in order. Swapping out overvalued stocks for low-risk alternatives, safe haven assets are getting some traction at the moment, with utilities seen as one of the most stable sectors. One stock in particular gets wheeled routinely into the conversation when it comes to recession-proofing: **Fortis** (TSX:FTS)(NYSE:FTS).

However, while Fortis is a suitably defensive choice for safe-haven investors seeking to hide their cash during a downturn while still mopping up some passive income, cautious investors may also choose to back up the truck on **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP). Paying a sizeable dividend yield of 5.5%, Brookfield is a defensive entry point for energy investors seeking dependable passive income.

Why else should investors consider Brookfield instead of Fortis? Take that yield for starters and compare it with the yield for Fortis: 3.27%. While both yields are sufficient for a long-term portfolio built around low-maintenance stocks, Brookfield is clearly the more desirable dividend payer. In terms of value, Fortis sells at 1.53 times book compared with Brookfield’s 1.29 times book, making for another solid reason for substitution.

Diversified across North and South America as well as Europe, Brookfield has a solid balance sheet with high-quality assets spread across a range of renewable energy sources, notably hydroelectric, wind, and solar. As with other Brookfield investments, a stockholder will buy access to management expertise from a company that acquires and develops assets using a mix of debt and equity, subsequently streamlining their operations and increasing their profitability.

The bottom line

With a canny business model that makes use of operating savvy and management expertise, Brookfield is a solid pure-play option in the clean energy space and pays a superior dividend to its closest competitor. While Fortis is a strong play for defensiveness, investors should also consider Brookfield as a potential recession-proof play for passive income that could continue to reward stockholders whatever the economic weather.

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