A Defensive Dividend Stock to Ride Out a Market Downturn in 2020

Description

Equity markets are back near all-time highs, despite a wide range of economic and geopolitical risks that could trigger a healthy correction in the coming months.

The launch of an impeachment inquiry in the United States is just the latest event in a string of potential disruptions for global financial markets. Wall Street doesn't appear to think President Trump will be impeached, but the process could add volatility to the stock market.

In the meantime, the ongoing trade dispute between the United States and China risks pushing the global economy into a recession. Each time the U.S. president sends out a tweet to say a deal could be coming soon, the market jumps, and any indication that progress is stalling tends to send investors to safe-haven assets, as we saw when the Chinese trade team abruptly had a U.S. farm visit cancelled.

At the same time, the Brexit deadline is fast approaching, and chaos in the British government doesn't bode well for a reasonable solution.

In the Middle East, there is a risk that Saudi Arabia will choose a military response for the recent attack on its oil facilities. The U.S. blames Iran. If the Saudis decide to hit Iran's oil sites with a retaliatory move, the entire Middle East could slide into a nasty war.

All of these issues are hovering above the equity markets and any major shock could trigger a significant pullback. As a result, investors might want to turn to quality dividend stocks that shouldn't be impacted by international chaos.

Let's take a look at one top dividend stock that might be an interesting defensive pick today for your portfolio.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with wireless and wireline network infrastructure providing Canadians across the country with mobile, internet, and TV services.

The company also owns a media division that is home to a television network, sports teams, radio stations, and specialty channels.

BCE's streaming service has found success in the Canadian market and the company continues to find ways to boost its revenue from existing clients. The purchase of home-security company AlarmForce early last year is a good example.

The business generates solid free cash flow to support the dividend and increases to the payout should continue at a steady pace. BCE's current dividend provides a yield of 4.9%.

Further signs of economic weakness will likely extend the recent trend of lower bond yields and declining interest rates. BCE tends to benefit in that environment, as its stock becomes more attractive for income investors, and the cost of funding its capital projects should decrease.

The dividend is considered very safe, so investors who want better returns than the 2% that they currently get from a GIC are more likely to buy the stock.

This is a big reason the share price has risen steadily in 2019. BCE started the year at $54 and now trades above $64 per share. The stock isn't on sale today, but it wouldn't be a surprise to see the BCE drift toward $70 by the end of next year, especially if the United States and Canada cut interest rates through 2020.

Risks?

The Liberals just announced that they would try to get mobile phone rates reduced if they are re-elected. That poses some risk to the Canadian telecom companies, but the reaction in the shares of BCE and its peers since the announcement suggests the market isn't overly concerned.

A trade deal between the United States and China might alleviate economic concerns. In the event economic growth takes off and the central banks start raising interest rates again, BCE could come under pressure. At this point, that doesn't appear to be in the cards over the medium term.

If you are searching for a high-yield stock that won't keep you up at night, BCE deserves to be on your radar.

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