If the Loonie Plunges, Buy These 2 Stocks

Description

In 2020, several headwinds could force the Canadian dollar much lower.

Economists and fund managers believe the risk of a recession is at a multi-year high, while shifting interest rates and oil prices could have an outsized macroeconomic effect. A housing bubble looms large over several major cities, while ongoing trade wars threaten the health of the entire economy.

If the loonie plunges, your portfolio could be directly at risk. Want to insulate yourself from volatility? Sleep easy with the following stocks.

Bulletproof earnings

It's always difficult to predict how a company will be impacted by a falling loonie.

Those that *import* goods and services are usually negatively impacted, because they now need to purchase those items with depreciated dollars. Those that *export* goods and services typically benefit because international customers will look to take advantage of their relatively cheaper production costs. Companies that operate completely in Canada can be a mixed bag.

The biggest thing you can do is make sure a company's earnings stream can remain resilient, no matter where the underlying currency heads. There's no better example of strength than **Hydro One**.

Hydro One distributes energy in eastern Canada, with transmission lines covering 98% of Ontario. Almost 100% of its earnings are regulated, meaning the government guarantees how much it can charge customers. Because power demand is incredibly stable from year to year, Hydro One has one of the most predictable revenue streams in the country.

The stock currently pays a 3.7% dividend, and management targets 5% rate base growth over the next five years. This stock may only produce annual returns between 5% and 10%, but that's acceptable considering shares may barely be affected even during a difficult recession.

Protected from volatility

Hydro One isn't the only energy-related company in Canada that can shield you from both economic and currency volatility. **Enbridge** (TSX:ENB)(NYSE:ENB), the largest pipeline operator in North America, also fits the bill.

As a pipeline operator, Enbridge is in an enviable position. Pipelines are nearly always the number one choice for oil and gas companies to ship their product. They're safer, cheaper, and faster. And because they can cost hundreds of millions of dollars and take years to permit and build, there's not much competition.

Enbridge has used this bargaining power to greatly reduce its risk. While the vast majority of energy companies earn money based on prevailing commodity prices, Enbridge charges by volumes. So, no matter how much a barrel of oil trades for, Enbridge earns the same amount.

The energy bear market of 2014 is a prime example. That year, oil prices fell 50%, yet Enbridge stock *gained* in value. Commodity prices were plummeting, but volumes kept rising, ensuring the company a healthy profit.

Today, Enbridge pays an impressive 5.8% dividend, and because liquids production in Canada is expected to grow through 2030 and beyond, the company should continuously grow no matter where the loonie heads.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2019/12/11
Author
rvanzo