Coronavirus Outbreak: Why Are Investors Buying Top Dividend Stocks?

Description

Some of Canada's top dividend-paying stocks, especially the ones that provide essential services such as power and natural gas, are outperforming the broader market this year. The strength in their stock values suggests that investors are getting ready for another major correction.

In my opinion, investing in defensive stocks isn't a bad idea when uncertainty is increasing and the risks to economic growth are rising after the outbreak of coronavirus. While it's too early to assess the full impact of the coronavirus, now designated a global health emergency, it will have economic repercussions in Canada.

China is the second-largest market for Canadian products. It purchased about $27 billion in goods from Canada in 2018, according to Statistics Canada. Canada exported $22 billion worth of goods to China in the first 11 months of 2019, representing 4% of total shipments abroad. China is also Canada's largest source of tourist arrivals from the Asia-Pacific region with a record 737,000 Chinese tourists in 2018, according to state agency Destination Canada.

Due to Canada's dependence on commodity exports, its economy is more vulnerable to a possible global slowdown triggered by coronavirus. That's the reason that the Canadian currency has weakened against the U.S. dollar as the price of oil slumped. These negative developments could deflate the bubble that's built in equity markets over the past six months, forcing investors to seek safety in some of the top dividend stocks, which are defensive in nature.

U.S. manufacturing woes

In another negative jolt, the manufacturing data from Canada's largest trading partner, the U.S., continues to show no sign of recovery. The U.S. factory sector headed into 2020 on a weak footing, contracting in December for a fifth consecutive month, as trade tensions continued to pressure manufacturers.

The Institute for Supply Management reported last month that its factory index fell to 47.2 in December from 48.1 in November. Readings above 50 indicate expansion, while those below 50 signal contraction.

While it's almost impossible to completely avoid the impact of a recession or a deep correction on your portfolio, it is possible to minimize it by buying stocks that are defensive in nature. In this category, companies that command a durable competitive advantage, growing free cash flows, and sticky services are the ones that fit the bill.

You can find these stocks in areas of the markets that rarely get press. For example, telecom utilities, power and gas providers, insurance companies, and large grocery chains have less to lose when the economy slips into a full-blown recession.

While you diversify your portfolio, you should certainly add one or two quality stocks from these sectors. Let's take the example of Canada's gas utility **Fortis** and **Enbridge**. These companies aren't too volatile when markets are going through an uncertain period.

The reason is that their services are among the last that people would consider cutting in a recession — and that stickiness provides stability to their cash flows. Both stocks have gained more than 7% this year, outperforming the benchmark the S&P/TSX Composite Index.

Bottom line

Buying top dividend stocks that pay regular dividends is a good strategy to ward off the potential impact of a correction on your portfolio, and if that weak phase turns into a long and deep meltdown, you will still be better off, as you continue to get the income stream from these stocks.

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