



## Should You Buy Enbridge (TSX:ENB) or CIBC (TSX:CM) Stock Today for a High-Yield Portfolio?

### Description

The multi-year trend toward low interest rates and falling bond yields appeared to be over in 2018, but things have changed dramatically in the past 12 months. [TFSA](#) income investors are once again seeking out quality [dividend stocks](#) to boost returns on their savings.

What's up?

Simply put, the United States and Canada put the brakes on their rate hike programs.

Heading into 2019, the U.S. Federal Reserve was expected to raise rates another three times. In the end, it actually cut rates by that amount. Canada put its rate hikes on hold last year and pundits are speculating we might see at least one cut in 2020.

The economy remains in decent shape, but the ongoing trade war between the United States and China forced the U.S. to take protective measures. Canada relies heavily on its trade with the U.S., and raising rates while the Fed cuts would potentially drive the Canadian dollar higher and impact exports.

The coronavirus outbreak is the new concern. In the event economic activity in China slows considerably as a result of the travel lockdown and drop in consumer spending, the entire global economy could take a hit.

Bond yields have dropped again and there's little appetite for interest rate hikes.

As a result, GICs from the Canadian banks that offered yields as high as 3.5% in late 2018 now pay about 2%. This is pushing income investors toward dividend payers.

Let's take a look at **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) and **CIBC** ([TSX:CM](#))([NYSE:CM](#)) to see if one might be an interesting income pick today.

## Enbridge

Enbridge is trading near its 12-month high, but still offers investors an attractive 5.8% dividend yield.

The company has done a good job of streamlining the business structure in the past couple of years — and the sale of nearly \$8 billion in non-core assets identified through a strategy review has calmed investor concerns about the balance sheet.

Enbridge is now capable of funding its capital program through internal sources, which means investors should see their holding diluted through additional stock sales. They won't have to worry about large new debt issues eating up important cash flow that can be used to pay dividends.

Enbridge raised the payout by 9.8% for 2020. While that might be the end of the big hikes for a few years, the company should still give investors a raise of 5-7% per year in step with anticipated growth in distributable cash flow.

## CIBC

CIBC appears somewhat undervalued today compared to its larger banking peers. The stock is trading at less than 10 times trailing earnings, which would be a multiple more fitting for a period of weak economic conditions and volatile financial markets.

CIBC does carry more risk than the larger Canadian banks in the event unemployment jumps in the country and the housing market tanks due to a wave of defaults. For the moment however, that scenario appears unlikely.

Canada's overall unemployment rate is at historically low levels; low interest rates and declining bond yields are helping new buyers get into the housing market while enabling those who already have mortgages to renew at favourable rates.

CIBC spent more than US\$5 billion in recent years to buy businesses in the United States — a move that created a more balanced revenue stream and additional deals could be on the way in the coming years.

Senior management recently announced plans to trim the workforce. That isn't great news for CIBC employees, but it shouldn't be a surprise for investors. The banks are investing more in technology and looking to reduce headcount in certain areas to improve overall efficiency.

CIBC remains very profitable and the stock provides a 5.2% dividend yield.

## Is one a better bet?

Enbridge and CIBC should both be solid buy-and-hold picks for a dividend-focused portfolio today.

If you only chose one, CIBC probably has better upside potential and the dividend growth should be close to that of Enbridge over the next few years. Six months ago I would have made Enbridge the first

choice, but the stock has enjoyed a nice rally.

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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