Portfolio Protection: 2 Top Stocks to Hold in a Market Downturn

Description

While Canadian and U.S. stock markets continue to trade near all-time highs, some pundits are suggesting a correction could be on the horizon.

In a normal cycle, pullbacks are a regular part of the market's movements, and a drop of 20% or more wouldn't be considered a surprise after the strong rally we have enjoyed over the past year.

The trigger could be an economic slowdown in China due to the ongoing coronavirus outbreak. Trade tensions between China and the United States have already disrupted supply chains and tariffs have hurt some industries.

Geopolitical unrest might also impact markets, especially if the feud between Iran and the United States flares up again and results in an expansion of military conflict in the Middle East.

Iran could try to close the Strait of Hormuz, which would block 20% of global oil transport and destabilize the global economy.

When the next stock market correction will occur is anyone's guess, but it will eventually arrive — and investors should start to consider some portfolio adjustments.

Stocks with low betas are a good place to start, which means the share prices tend to move less than the broader market. Companies that fall in the category include utilities and telecom stocks.

Let's take a look at two that might be interesting defensive picks for your TFSA or RRSP portfolio.

Telus

Telus (TSX:T)(NYSE:TU) is a leading player in the Canadian communications industry, with world-class wireline and wireless network infrastructure supplying mobile, TV, and internet services across the country.

Telus is also investing in the expansion of its Telus Health divisions, which is already the top provider of digital health solutions to Canadian doctors, hospitals, and insurance companies. The opportunity for this business to grow is significant and could become a key driver of revenue in the coming years.

Telus has a long track record of sharing profits with investors through generous dividend increases. The company normally raises the payout twice per year and is targeting annual dividend increases of 8-10% over the medium term. The current distribution provides a yield of 4.2%.

In the event the economy hits a rough patch, people will still require mobile and internet services. Restaurant visits and expensive coffees will likely get cut from the budget before the TV subscription.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) owns natural gas distribution, power generation, and electric transmission businesses in Canada, the United States, and the Caribbean.

The majority of the revenue comes from regulated assets, meaning that cash flow should be predictable and reliable over an extended time frame.

Fortis grows through acquisitions and capital projects. The current $18.3 billion development program is expected to boost the rate base over the next few years and support ongoing dividend increases of about 6% per year through 2024.

That's solid guidance and should buffer the stock in the event the market hits a speed bump.

The flight to safety in financial markets is already helping Fortis. Bond yields are in decline and interest rates could fall in Canada and the United States before the end of the year. Fortis uses debt to fund its projects and the reduced borrowing costs could make more cash available for distributions.

Investors who buy Fortis today can pick up a 3.3% dividend yield.

The bottom line

Telus and Fortis are reliable dividend growth stocks that should hold up well when the broader market enters the next correction.

If you are searching for defensive stocks to add to your portfolio, these companies deserve to be on your radar.

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Author
aswalker