These Are the Best Dividend Stocks to Buy as Bond Yields Plunge

Description

The space for investors to earn higher returns is shrinking fast in this uncertain economic environment. Some of the best dividend stocks are falling, bonds yields are plunging, and highly cyclical growth stocks are losing their shine. This new economic reality is more painful for those who are in the middle of building a dividend-generating portfolio.

After an emergency rate cut of 50 basis points last week to counter the negative impact from the coronavirus outbreak, the Bank of Canada will have to slash its key interest rate by another three-quarters of a percentage point in its next rate decision in mid-April, according to **Bank of Montreal**.

“Given the expectations for weaker growth, we anticipate that the Bank of Canada will be cutting rates 100 basis points over the next two meetings,” BMO’s economics department said in a research note on Tuesday.

The bank anticipates a 75-basis-point cut in the bank’s next rate decision on April 15 and another 25-basis-point cut in the following decision on June 3. If that happens, it would reduce the BoC’s key rate to 0.25% — matching its record low set during the financial crisis in 2009.

Best dividend stocks

Despite this economic uncertainty, in my view, adding the best dividend stocks and then continuing to buy more of them from your dividend income can still be a winning strategy. That means you also need to get ready to add some risk to your portfolio, because investing in stocks isn’t as safe as buying GICs or putting money in your savings account.

That being said, there are ways to manage your risk. You can do careful due diligence of the stocks you’re buying. For example, you can find some top companies that operate in a kind of oligopoly where competition is limited, the regulatory environment is very favourable for their growth, and they have very established and diversified revenue base.

Rogers Communications and **Fortis**, my two favourite picks for income-seeking investors, have become more attractive after the recent pullback in their prices.

Trading at $60.23 at the time of writing, Rogers is yielding more than 3%, while Fortis stock yields 3.48% at $55.08. These yields might not look too appealing to some investors, but the reality is that we are in for another low-rate environment. It will be tough to find quality stocks where your capital is not under threat and you are able to earn steadily growing payouts.

Both Rogers and Fortis fit the bill. Between 2006 and 2020, Fortis's annual distribution increased from $0.67 to $1.91 a share — a very impressive track record of rewarding investors. The company has increased its dividend payout for 46 consecutive years — a record few companies can maintain.

For long-term investors, this pullback offers a great opportunity to add to their existing positions and add more of these solid dividend names to their portfolios.

Bottom line

There is no doubt that the threat to the Canadian economy is real amid falling crude oil prices and the spread of the coronavirus, but I don't think there is any other avenue than dividend stocks that could provide the kind of return you need to beat inflation and earn a decent income. This temporary setback to dividend stocks should be taken as a buying opportunity.

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hanwar