



Are Telecom Stocks Recession-Proof?

Description

Two weeks ago, a recession seemed inevitable. Now, some investors are thinking we've already hit the bottom.

The volatility we've witnessed this year has been off the charts. After an exceptional year of growth in 2019, the **S&P/TSX Composite Index** is now down roughly 20% in 2020.

The market has had a strong last two weeks, but there is still plenty of uncertainty in the future of the economy. Unemployment continues to increase, as COVID-19 has caused many businesses to halt production.

Now is the time investors need to review their portfolios to see if they can withstand a recession. Determine how you think each of the companies you own will have its earnings affected by a significant market crash.

For a long-term investor, now is a great time to add a defensive stock to your portfolio. The defensive characteristics can help balance out the higher-risk companies you own.

Telecom is a perfect industry to look to add a defensive stock. Many consumers will be cutting costs if an official recession begins. You can bet that cell phone bills won't be the first cost that gets slashed.

Telecom services are an essential part of everyday communication now. And with people spending more time in isolation, telecommunication has never been so important.

Bell Canada

At a market cap of \$50 billion, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) is the largest telecom in the country. **Rogers** and **Telus** sit second and third, each with about a \$30 billion market cap.

What makes any of the three telecoms a wise investment is the reliability of the stock. Recurring revenue means that investors will see consistent earnings from the company. In addition, there likely

won't be any roster changes with the top three any time soon. The high barriers to entry in the telecom industry prevent new competitors from gaining significant market share.

BCE offers products and services to both individual consumers and enterprise size clients. Smartphone plans, cable TV, landline phones, and internet services are the main four telecom-related revenue drivers for the company.

5G growth potential

There are many investors excited about the growth potential of 5G technology, and for good reason.

With stronger technology capabilities, individual consumers and businesses will both be increasing their data usage dramatically. But the real key driver in 5G isn't on an increase in data consumption but [rather an increase in connected devices to mobile networks](#).

We're already seeing this happen now, where more and more devices we own are connected through technology. 5G technology is only going to amplify the capacity to connect even more devices to telecom networks.

Dividend yield

A typical defensive stock will be a dividend payer as well. During a recession, a dividend cheque will be greatly appreciated by investors.

BCE pays an annual dividend of \$3.33 per year, which is equal to a yield of about 5.75% at today's stock price.

The Dividend Aristocrat isn't just a high-yielding dividend payer; [it's an extremely reliable one as well](#). Because the company can expect to continue to see stable earnings even during a recession, a dividend cut would be unlikely.

Foolish takeaway

Whether we are headed for a recession or not, now is a great time to evaluate your portfolio. Try to determine how you think the companies you own would react to a recession. If you feel that there is a bit too much risk in your portfolio, consider adding a telecom company.

Bell Canada can not only provide investors with defensive characteristics but growth as well. The telecom industry will allow the company to continue to earn profits regardless of the state of the economy. And the exposure to 5G technology provides a high upside for long-term investors.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice
2. recession
3. telecommunications

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2. TSX:BCE (BCE Inc.)

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