The Market Rally Is On: Is It Safe to Invest in Dividend Stocks Again?

Description

While March was an abysmal month for the markets, things are looking up in April. After reaching a low of 11,173 on Mar. 23, the **TSX** has risen sharply over the past couple of weeks.

The index reached rose above 14,000 points last week, the first time it's done so since it closed above that mark on March 11 — the day the World Health Organization officially labelled the coronavirus a pandemic.

The markets are rallying and income investors may be wondering if it's safe to buy dividend stocks again. But the answer depends on what industry you're looking at.

The market rally won't help oil and gas stocks

Earlier this month, oil and gas giant **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) announced that it would be suspending its dividend payments in order to conserve cash. The company was already worried about a low price of oil amid a feud between Saudi Arabia and Russia when it announced it would cut back on capital spending in March.

However, now that the coronavirus pandemic likely putting Canada and other countries into recessions, that could put even more pressure on oil prices, which is why companies like Cenovus have had to make more drastic moves, such as stopping their dividend payments, in order to prepare for what could be a very challenging year.

In Cenovus' case, the broad market rally may do little to help the stock. With a strong correlation to the price of oil, there's only one thing that can help the battered oil and gas stock, and that's a stronger commodity price. Unfortunately, even once the pandemic is contained it's not likely that demand for oil will jump back up.

An economic downturn could follow, and people may be struggling financially and unable to travel. That's why dividend investors should steer clear of oil and gas stocks for the foreseeable future.

Are bank stocks still safe?

Traditionally, Big Five bank stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are normally safe havens for dividend investors. However, with interest rates falling and a downturn in the economy impacting their performances, bank stocks may not necessarily be safe, either.

While TD may likely continue paying a dividend, investors may not continue to see the bank stock increasing its payouts until the economy gets stronger.

But whether or not this market rally gets shares of TD going, investors may still want to consider buying the stock given the decline that's it been on over the past month.

If you can lock in a 5% dividend yield or higher for TD, that's a great payout for one of the country's top bank stocks. Even if the economy struggles, over the long term it'll recover from it and TD will still be around and will likely be stronger than ever.

If you wait too long for a market rally to lift bank stocks up, you may miss a golden opportunity to buy TD at a significant discount — and it could be years for an opportunity like this to present itself again.

Buying shares of TD now can set investors up for significant returns in later years. While there may not be many dividend stocks that are safe right now, one that you can count on over the long haul is TD.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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