Why Utility Stocks Should Be Your Preferred Choice Right Now!

Description

Utilities do not have a swanky business model or an attractive growth that doubles your money every five years. However, they stand tall when markets as a whole turn unpleasant.

High-growth stocks generally have a high correlation with broader markets, and they underperform substantially during market downturns. However, consistent dividends and slow stock movements make utility stocks better placed in all kinds of markets.

Focus on stability and not growth

Investors can consider Canadian top utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS) and **Canadian Utilities** (TSX:CU). There are plenty of reasons why you should focus more on stability instead of aggressive growth right now.

TSX stocks at large have soared more than 40% since March 2020. Markets continued to soar higher recently, despite economic woes and the recent surge in coronavirus cases.

Notably, even if many economies are gradually reopening, business activities will likely take time to reach pre-pandemic levels. More importantly, the recent surge in active cases could force governments to re-impose lockdowns, which could further delay the recovery.

Why utility stocks could outperform

Utilities are some of the safest bets in the current market scenario. Here's why.

Interest rates across the globe have hit record lows amid the pandemic. Investors should note that interest rates and utility stocks generally trade inversely to each other. Evidently, top utility stock Fortis has returned 1%, while TSX stocks at large have fallen 15% so far this year.

Utilities generally carry a large amount of debt on their books, and lower interest rates reduce their debt-servicing costs, ultimately boosting their profitability.

Additionally, dividend investors switch to utilities amid falling interest rates in search of higher yields. This further gives a boost to utility stocks.

Canadian Utilities stock offers an attractive yield of 5% while Fortis yields 3.7%, higher than TSX stocks at large. Notably, both these utility giants managed to increase dividends for more than 45 consecutive years.

Such a long dividend-increase streak is not unusual among utilities. They have relatively stable cash flows driven by highly regulated operations, which enable stable dividends. And that is exactly why utility stocks generally outperform in recessions.

Recession-resilient utility stocks

Irrespective of the economic conditions, people continue to use electricity and gas, facilitating stable cash flows.

Notably, second-quarter earnings decline will likely weigh on TSX stocks at large. At the same time, TSX utility stocks will play relatively well amid their stable earnings growth.

Fortis had notably outperformed Canadian broader markets in the 2008 financial crisis. Fortis expects to increase its dividends by 6% per year for the next few years. This payout visibility when companies are cutting dividends is of immense importance for long-term investors.

In the last 10 years, Fortis stock has returned more than 180%, notably beating the **TSX Index**. An investment of $10,000 a decade ago would have turned $28,000 today.

Though utilities might seem boring on the face of it, the stability and dividends play a big role in shareholders' total returns over the long term.

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2. TSX:CU (Canadian Utilities Limited)
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