Dividend Stocks Could Make a Big Comeback in 2021

Description

During the February-March market meltdown, many dividend stocks were clobbered, and their dividend yields swelled well above the historical range. Today, tech stocks have taken off, and while the massive (and sustainable) yields have fallen back to Earth as dividend stocks recovered into year's end, many former dividend darlings sitting at ground zero of the crisis still sport hefty yields that aren't necessarily at risk of being cut.

2021: The return of dividend stocks?

The REITs, telecoms, banks, and pipelines are just a few areas of the market where I think it's safe to reach for higher yields.

With many folks expecting a big economic recovery in 2021, it's the bruised players within such COVID-hit industries that could allow investors a chance to lock-in an above-average yield alongside a shot at outsized gains. The risk/reward to be had in pipelines such as **Enbridge** (TSX:ENB)(NYSE:ENB) is looking quite stellar here, while shares are still in the doghouse over COVID-induced pressures.

While only time will tell if 2021 will be a kinder year for dividend stocks, I certainly think that the risk/reward is far greater at these levels versus the likes of the pandemic-resilient tech stocks that were among the biggest winners of last year. Enbridge sports a massive 7.9%-yielding dividend, which, as I described in many previous pieces, is far safer than it seems, given management's shareholder-friendly nature and medium-term catalysts that are likely to overcome obstacles in due time.

Now, there are plenty of regulatory hurdles that can be expected with the pipelines. Running into such hurdles (such as resistance against Enbridge's Line 3 Replacement) paves the way for extreme levels of volatility. Project delays and all the sort will put investor patience to the test, and for many, volatility caused by regulatory uncertainties doesn't justify the lofty dividend yield.

Plenty of growth left in the pipeline

For those willing to buy and hold for many years at a time, though, I do think ENB stock is a contrarian play that could yield ample amounts of fruit over the long haul. You see, one of the best counters to volatility is time. As the great Benjamin Graham, one of Warren Buffett's early mentors, once put it, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

When it comes to Enbridge, the stock's true value will be recognized in the grander scheme of things. The company has far too many stellar assets and a quality dividend that's likely to grow at an above-average rate on the other side of this pandemic.

Fellow Fool contributor Andrew Walker thinks that Enbridge stock is a solid buy for your TFSA, given the 2021 recovery trajectory: "Global gasoline usage is expected to recover to 2019 levels by the end of 2021. Jet fuel demand will take longer to rebound. Enbridge's oil pipelines normally operate near capacity, so the outlook in the second half of the year should improve for that group."

Walker thinks that ENB stock could make a run for $50 by year's end, implying just over 18% worth of upside from today's levels (or 26% on a total return basis). I think Walker is right on the money and would encourage contrarians to stand by the stock as it continues to navigate through headwinds, both company-specific and industry-wide.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

Date
2025/08/24
Date Created
2021/01/09
Author

joefrenette