2 Top Canadian Dividend Stocks to Ride Out the Next Market Correction

Description

Stock markets are due for a healthy correction after the massive rally that occurred over the past year. Investors with some cash on the sidelines might want to consider buying top Canadian dividend stocks that tend to hold up well during a market pullback.

Why BCE is a good dividend stock to buy now

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with networks providing mobile, internet, and TV services across the country. BCE also owns a media division that includes sports teams, a television network, specialty channels, radio stations, and retail operations.

The media group took a hit last year, and it might be the back half of 2021 before fans get a chance to see a game in person, but the situation will improve as we move past the pandemic.

Recent news of a potential merger between **Rogers** and **Shaw** rocked the Canadian communications sector. Assuming the deal gets government approval, the mobile sector will once again be split among three main competitors, rather than four. This should be good news for BCE.

The arrival of 5G networks presents BCE with opportunities for new revenue streams. The company can also capitalize on the need for remote monitoring and other home or business security services.

BCE trades near $58 per share at the time of writing compared to the 2020 high around $65. The stock should hold up well in the next market correction. Investors who buy now can pick up a solid 6% dividend yield.

Why Fortis is a good stock to buy for dividend investors

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility company with $55 billion in assets spread out across Canada, the United States, and the Caribbean.

Most of the revenue comes from regulated operations. This means cash flow tends to be predictable and reliable. Homes and businesses need to use electricity and natural gas in all economic conditions, so Fortis is a good pick to balance out a portfolio that also includes cyclical or growth stocks.

Fortis is working on a $19.6 billion capital program that will boost the rate base from $30 billion in 2020 to $40 billion through 2025. In the Q4 2020 report the company said it expects to deliver an average annual dividend increase of 6% over that timeframe.

This is great guidance for dividend investors who rely on steady distribution hikes for income.

Fortis currently trades near $54 compared to $58 before the pandemic. Investors who buy now can pick up a 3.75% dividend yield. That's not as high as some other income stocks, but it is much better than a GIC and the stock tends to be quite stable when the broader market corrects.

Risks?

A sharp spike in interest rates would be negative for BCE and Fortis. The companies use debt to fund their capital programs and higher borrowing costs can reduce cash available for distributions. Rising interest rates might also entice income investors to switch to fixed-income alternatives.

The bottom line

For the moment, the Bank of Canada and the U.S. Federal Reserve intend to keep rates at current levels until 2023. Even if rates increase before then, borrowing costs will remain low by historical standards. Dividend growth at BCE and Fortis should keep income investors engaged.

If you have some cash to put to work, but are concerned about the next market correction, these stocks deserve to be on your radar.

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