1 of the Safest Canadian Dividend Stocks on the TSX

Description

The Fed “dot plot” had many beginner investors biting their nails this week. Undoubtedly, Fed chairman Jerome Powell is in a tough spot, with the rising threat of inflation before employment has had the chance to fully rebound from the coronavirus crisis.

Undoubtedly, 2023 could be the year that sees as many as two rate hikes. Or at least, that’s what the Fed expects at this time. Should inflation surge, expect the Fed to pivot. Who knows? We could be hit with a rate hike as soon as 2022 if inflation doesn’t temper down into the end of 2021. And if we’re hit with such a surprise, investors would wise to prepare for a late-2018 style selloff.

At the same time, inflation could slow down and pull back over the coming months. And if it starts looking more transitory in nature, we may even get just a single rate hike in 2023. Such an environment would give stocks permission to absolutely soar.

Right now, I don’t think anybody knows when the next rate hike will be. Early 2023 seems like the safest bet, but you had better prepare for the odd surprise, given the many variables that dictate monetary policy changes.

Stock market on unstable footing? Time to play defence

Undoubtedly, the market showed its fragile side on Wednesday, with shares taking a modest hit, as the Fed pulled up its rate hike schedule. If the Fed still views inflation as transitory, yet it still believes rate hikes could be justified in as little as 18 months, you’d better be sure that they’ll consider more hikes should evidence of permanent inflation rear its ugly head.

In any case, I think it’s wise to allocate a big chunk of your portfolio to some of the safest Canadian stocks on the TSX. Many such names can help your portfolio keep its head above water come the next surprise selloff. And with the broader basket trading at pretty attractive valuations, now could be the time to prepare yourself for what could be a rocky and correction-filled couple of years.

Fortis: One of the safest TSX stocks in Canada

Fortis (TSX:FTS)(NYSE:FTS) is the ultimate Canadian bond proxy. It's an uneventful name that's unlikely to make the news on any given day. With one of the most secure regulated operating cash flow streams out there, Fortis's dividend is as good as gold. Given how unrewarding bonds have become, I'd argue Fortis stock ought to be trading at much higher multiples, given the degree of safety it can provide in this type of environment.

The stock trades at 2.9 times sales and 21.2 times earnings, both of which are in line with the electric utility industry averages of 3.7 times and 24.5 times, respectively. The 3.6%-yielding dividend is safe and is poised to grow at a 5-6% annualized rate over the next few years. With a 0.07 beta, Fortis is also less likely to be influenced by the broader market moves induced by the Fed.

The stock isn't a steal by any means, but compared to bonds, it's an incredible bargain at these levels.

Bottom line

I firmly believe that investors have a friend in the Fed. That said, the economy moves in strange, unpredictable ways. And the Fed may be forced to move with rate hikes, even if it goes against their goal of full employment.

That's why investors should hedge their bets and be ready for rampant volatility as a result of any tapering or tightening.

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