2 Top TSX Dividend Stocks to Buy on a Market Correction

Description

As we head into October, there is a chance the market pullback that began in September could get more volatile and become a healthy correction. This would present a great opportunity for investors to pick up some top TSX dividend stocks at attractive prices.

Telus

Telus (TSX:T)(NYSE:TU) trades near $28 per share at the time of writing compared to nearly $30 three weeks ago. The weakness is partly due to concerns that the Bank of Canada and the U.S. Federal Reserve might raise interest rates sooner than previously expected to tame persistent inflation.

A sharp jump in interest rates tends to be a headwind for telecom stocks. Investors who like the stability of the dividends sometimes shift funds back to fixed income when GIC rates or bond yields rise. That being said, pullbacks in anticipation of higher rates often overshoot, giving investors a chance to pick up Telus and its peers at cheap prices. It will be some time before a GIC is competitive with the 4.5% dividend yield investors can get from Telus today.

In addition, Telus intends to raise the dividend by as much as 7% per year over the medium term, so the dividend growth will help offset any increase in returns from fixed-income alternatives.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades near $126 per share compared to the 2021 high of $134. The bank reported strong fiscal Q3 2021 earnings, despite the ongoing pandemic challenges. House prices defied CMHC predictions in the past year, adding to average values rather than tanking by up to 18%. Strong demand and low supply should keep the housing market resilient, even if mortgage rates drift higher, as expected, in the next few years.

Rising interest rates tend to be positive for banks, so the sector could get a new tailwind if the central banks hike rates in 2022.

Royal Bank has a balanced revenue stream coming from personal banking, commercial banking, capital markets, wealth management, and insurance, as well as investor and treasury services. The company released more than $600 million of provisions for credit losses (PCL) in fiscal Q3, signaling to investors and the market that the largest risks from the pandemic appear to have passed.

Royal Bank is an earnings machine and one of the most profitable large banks on the planet. Its current market capitalization of $180 billion gives it the firepower to make big strategic acquisitions to drive growth. The bank is sitting on a cash hoard right now that could be used to do a deal or simply provide investors with a raise through a generous dividend increase as soon as the government gives the banks the all-clear to restart payout hikes.

Long-term investors have done well with this stock. Buying on dips has traditionally proven to be a rewarding move, so it would make sense to keep an eye on Royal Bank in the coming weeks for an opportunity to buy the shares at a lower entry point.

Investors who don’t want to wait should be comfortable buying at the current price and can pick up a 3.4% yield.

The bottom line on top TSX dividend stocks

We don’t know when the next major market correction will occur, but it makes sense to have some powder dry for top TSX dividend stocks when the pullback occurs. Telus and Royal Bank have great track records of delivering strong total returns for buy-and-hold investors. A meaningful pullback in their share prices should be viewed as a good opportunity to buy the stocks.

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