



2 Passive-Income Stocks to Watch in December

Description

Canadian investors have a lot of passive-income stocks to select from going into the [year's end](#). Indeed, the magnitude of [risks](#) seems elevated, as the Bank of Canada (BoC) readies to raise rates. With inflation continuing to weigh (just over 4% and 6% in Canada and the U.S., respectively), investors may wish to consider dividend-paying stocks with a lower price of admission.

Utilities and energy stocks have been intriguing places to put money to work in to help combat the effects of higher inflation. Still, as interest rates rise and commodity prices begin to run out of steam, utilities and energy names may not be ideal places to put cash to work going into December 2021.

Higher inflation and rising rates on the horizon, but investors shouldn't panic

While the dividends of utility or energy stocks may help investors shrug off persistent levels of problematic inflation, their capital-intensive nature makes them view higher interest rates as a negative. Indeed, higher rates could eat into profitability, leaving less on the dividend-growth front for investors. While utility and energy stocks are still worth owning, even in a rising-rate environment, investors must realize that higher rates will act as a modest headwind. With two (maybe three) quarter-percentage rate hikes likely expected in 2022, utility plays have already taken a bit of a hit on the chin.

Renewable energy plays like **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) are on the right side of a secular trend (green energy) that could continue to support growth, even as the cost of capital steadily increases over time. It should be the preferred choice for defensive investors.

Banking on the Big Six

Moreover, Canadian financials, including the Big Six Canadian banks, are also interesting options that stand to benefit from a higher rate environment. **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) is my preferred choice in Canada's banking scene — not just because it has some of the best managers out there, but the

stock seems relatively discounted, given its relatively muted past few quarters. In addition, the deposit-heavy retail banking businesses stands to benefit a great deal, as it's allowed a pathway to improve its net interest margins, which may be close to a low point.

Today, TD Bank and its managers are likely keeping an eye on M&A opportunities south of the border. It seems like a big deal could happen at some point over the next 18 months. In any case, I'd look for Canada's most American bank to be a major mover in the new year.

Algonquin Power & Utilities: Higher rates and COVID disruptions likely baked into share price

Algonquin Power is one of the cheapest green energy plays in North America these days after suffering a painful pullback that propelled the name into bear market territory. COVID headwinds have taken a hit on growth, but in due time, Algonquin will be ready to bounce back, as it looks to capitalize on the continued rise of clean power production.

Indeed, Algonquin is a rare breed in that it can support a hefty dividend (it currently yields 4.8%) while also having the financial flexibility to put money to work in initiatives that'll support cash flow (and dividend) growth for many years to come. Although a higher-rate environment isn't a boon for Algonquin, as it is for the big banks, I think the company isn't as at risk to higher costs of borrowing as most think. For that reason, AQN shares seem like an absolute bargain at just shy of 13 times trailing earnings.

Further, if rates don't rise nearly as fast as most expect, Algonquin may be overdue for a small correction to the upside. Either way, the name is way oversold here, making it a compelling passive-income play for value seekers.

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