1 Dividend Stock I'd Hold Through a Recession

Description

There are a number of Canadian dividend stocks I'd be willing to buy and hold forever (or at least for a very long time) amid the recent bout of volatility. Although valuations are more modest, on average, than they were just a few months ago, I think that the magnitude of macro tailwinds may not be fully factored into the share price today. Indeed, stocks don't necessarily have to implode to get cheaper. If earnings and growth prospects improve, a stock can easily get cheaper on the way up. Given the sheer strength of the Canadian economy, I think that dividend investors can expect some very generous payout raises and solid capital gains moving forward.

Undoubtedly, value is finally getting its chance to shine. It took a tech meltdown and higher rates to make the shift, but I think that value investing is here to stay until inflation gets under control and central banks around the world are ready to pull back on hikes and potentially reverse some of them.

High inflation, recession, stagflation scenarios are worrying

Although tech is a disinflationary force, I think that it could take many years before the rock-bottom environment has a chance to be reached again. In any case, rates could normalize just north of the 2.5% mark in the United States. At least, that's what the market seems to be pointing at today. Whether or not central banks need to push the economy into a recession to drive inflation down remains to be seen. That's why it's only prudent to insist on value stocks that may have less sensitivity to the market cycle.

Consumer staples, utilities, and telecoms are just a few places to look, as the risks of a bear market and recession grow with every rate hike and more hawkish tilt given by the Fed. Sure, betting on a sharp bounce in tech stocks with zero profits may be more exciting. But given the risks, I'd argue that the less-exciting play is the way to build and preserve wealth through these challenging times.

Atop my Canadian dividend stock pick list is **CN Rail** (TSX:CNR)(NYSE:CNI) stock, a dividend-growth stud that's unlikely to be derailed by the next recession, whether or not it happens this year or next.

CN Rail: A Canadian dividend stock with staying power

With a 1.8% dividend yield, CNR stock isn't the most bountiful dividend payer out there, but it's arguably one of the most durable. The firm has hiked its dividend by an above-average rate every single year, through the good and bad times. Although a recession is a possibility for the next 18 months, I'd argue that CN stock is a buy regardless. Why? CN Rail may be economically sensitive, but it's usually one of the first stocks to bounce back from a recession. Further, the magnitude of decline on the stock tends to be muted, given the width of CN's moat and how vital it is to the health of not only Canada's economy but North America's.

CN Rail has a new CEO, and I think she's the right woman for the job, as the firm looks to put its choppy, less-than-rewarding days behind it. Moving into 2023, I'd look for CN to focus on improving its operational efficiency. There's a lot of room to improve after a turbulent 2020 and 2021. Activist investors seem happy with the significant CEO change, and I think they're right to be, as CN looks to lead the TSX through what could be a relatively mild year for the economy.

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