Stagflation Fears? 2 Stable Dividend Stocks to Hold Through 2023

Description

The U.S. inverted yield curve is flashing warning signs about the next year or so. With some big banks increasing their odds of a recession for 2023 or 2024, it seems as though now would be a good time to lighten up on equities, especially those that are more cyclical in nature.

Remember, cyclical stocks tend to take the brunt when the economy heads south. Indeed, with interest rates headed higher, the Bank of Canada (BoC) and U.S. Federal Reserve (the Fed) will be trying to douse the flame of inflation. In order to do so, though, some heat is likely to come off the economy, less than two years after it rose from the depths of the coronavirus recession and 2020 stock market crash.

Indeed, central banks have made a few slight mistakes by letting inflation rise as quickly as it has. Still, it's a mistake that could be reversible. The Fed hopes to minimize the repercussions that could drag the economy south. It's this so-called soft landing that we've heard so much about in the media of late. By raising rates steadily and being as transparent as possible, the Fed hopes to minimize the impact of the next recession, whether it's due in 2023 or early 2024.

Can stagflation, a recession, and inflation be avoided: how to play a tough road ahead

While the Fed and BoC mean the best, they can't always consistently achieve their mission. Undoubtedly, their prior transitory views of inflation have proven wrong. That's why it's good to be optimistic but also prepared for the worst. Remember, the stock market may be headed for a less-than-stellar fate. But that doesn't mean all stocks will sink lower.

Undoubtedly, billionaire investor Leon Cooperman is staying invested, with a plan to "stock pick" his way to greater results. I think self-guided investors should do the same. Be a buyer of undervalued securities, regardless of what anyone else on the Street says. A recession should not be avoided by selling everything. If you're going to be a long-term investor, you've got to deal with recessions. They're inevitable, and you'll likely experience a few in your investment lifetime.

Stocks like **Fortis** (TSX:FTS)(NYSE:FTS) and **Fairfax Financial Holdings** (TSX:FFH) are great value stocks that I believe can help individual investors improve their odds of beating the markets, even if hard times are ahead. Both companies make solid cash flows and are trading at reasonable multiples. Essentially, they're the type of value stock that many may have passed up in 2020 in favour of speculative momentum plays that have since crumbled.

Fortis

Fortis is my favourite bond proxy by a long shot. It's tended to weather past storms quite well. The stock isn't dirt-cheap, given investors are fully aware of its low beta and secure dividend. But the shares are still worth reaching for if you believe in smart investors like Cooperman, who view recessions as an environment where those who lose the least arise as winners—the opposite of the frenzy enjoyed through 2020 and 2021.

Fortis is boring. But boring, predictable cash flows are what can help you lose least or even make gains in an off year (or two) for broader stock markets.

Fairfax

Fairfax is quite possibly one of the better ways to zig when markets zag. Prem Watsa, the top boss, is the king at hedging his bets and preparing for adverse conditions. There's a reason why Fairfax left everything behind during the Great Financial Crisis.

Though Watsa doesn't have the same hedges as were in place before, I do view Fairfax as a stock that can, once again, do well, even as the economy shows signs of weakness. Watsa is an unorthodox investor, but he knows the macro picture like few others. And he's willing to be a contrarian when it matters most. At 4.4 times earnings, FFH stock seems like a bargain in my books.

CATEGORY

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