TSX Utility Stocks in Focus as Recession Fears Rise

Description

The global growth outlook is taking a hit, as the Russia-Ukraine war lingers. In addition, rising commodity prices are aggravating the inflation situation, which will further hinder growth. As a result, stock markets are struggling to find a direction amid increased uncertainties. So, what should Canadian retirees do right now?

TSX utility stocks outperform amid war

Defensive stocks have been rising of late, with growth stocks taking a plunge. For example, popular safe havens — Canadian utilities have remarkably outperformed the **TSX Composite Index** since the war.

For example, top TSX utility stocks **Fortis** (TSX:FTS)(NYSE:FTS) and **Canadian Utilities** (TSX:CU) are up 13% each, while TSX stocks at large have gained a meagre 3% since late February. So, it's indeed notable that otherwise slow-moving utilities have beat growth names by a wide margin.

But what makes boring utility stocks so special in the current situation? Will they continue to outperform?

First and foremost, what makes them stand apart is, they are mature companies with decent earnings visibility. Even if the recession comes or the economic growth zooms, utilities keep growing steadily because of their stable demand.

Their consistent profits let them pay handsome dividends to shareholders. High-growth tech stocks take severe beatings in falling markets because their earnings are more aligned with economic cycles. However, utility companies earn steady cash flows in almost all economic scenarios, producing stable wealth for shareholders.

Consistent profitability and generous payouts

Utilities are some of the big-hearted companies in the broader markets when it comes to dividend payments. Fortis has paid 60% of its earnings on average in dividends in the last five years. Canadian Utilities has this number at around 70%.

Note that when markets crashed in March 2020 amid the pandemic, utility stocks notably outperformed. Canadian broader markets cracked 30%, while FTS stood strong and corrected a mere 6%. Fortis showed similar strength during the 2008 meltdown. Thus, utilities could protect capital as well as provide stable passive income for low-risk investors like retirees.

Also, long dividend hike streaks are common among utilities. For example, Fortis has increased its dividend for the last 48 consecutive years. Its consistent profitability and stability have been behind such a long streak. Notably, Canadian Utilities keeps the throne of maximum dividend increases in Canada, with 50 consecutive years of a payout hike.

Bottom line

There are some drawbacks as well to investing in utility stocks. Even if markets see superior growth, these defensives will likely see subdued growth. That’s why stocks like FTS and CU are laggards in bull markets.

Also, utility stocks underperform in rising interest rate environments. However, if the economy takes an ugly turn from here with the spillover effect of the war, we could see a slower pace of rate hikes from the central banks.

More global uncertainties mean more volatile markets and outperforming utilities. FTS stock has returned 189%, while CU returned 80% in the last decade, including dividends. So, if you are looking for stability and ready to compromise on high-growth, utility stocks offer an attractive investment proposition for your retirement portfolio.

CATEGORY

1. Dividend Stocks
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3. TSX:FTS (Fortis Inc.)

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Author
vinitkularni20