2 Safe Canadian Dividend Stocks in Buy Territory

Description

Canadian dividend stocks are a great place to be in if you fear the wealth-eroding effects of inflation. These days, inflation is surging, and nobody knows when it will peak and fall back to the 2% range that we've all taken for granted. Indeed, the Bank of Canada (BoC) is hard at work balancing inflation with the economic-cooling effects of rate hikes.

With more rate hikes in the cards, inflation may very well be brought back under control in the latter half of 2022. Still, there's also a chance that persistent inflation wins out, leaving central banks with a very difficult decision on their hands. Back in the 1970s, high inflation proved tough to stomp out. With the Ukraine-Russia crisis worsening the effects of global inflation, it's really hard to tell what's up next for inflation. Will it be as persistent as back in the 1970s? Or can a few rate hikes bring it down without sparking an economic recession?

Which is the worst beast? Inflation or volatility?

If inflation proves persistent and the economy flirts with a recession, the possibility of stagflation increases. Indeed, high inflation and weak GDP growth is not what anybody wants, but there is a chance it could happen if central banks don't get what they want in an attempt to engineer a soft landing.

Fortunately, Tuesday's round of earnings were quite robust, inducing a rally in broader markets. Corporate earnings are a wild card that the bears may have overlooked. And if the economy is strong enough to avoid falling into a recession at the hands of nine or so rate hikes, investors may have less to fear than they think.

For now, investors should brace themselves for a rocky road. Inflation could peak, but that doesn't mean it's time to increase your cash hoard. If anything, the case for staying with cheap dividend stocks is a good one. Inflation is here. Next up could be a slowdown. Defensive dividend stocks like utilities may be intriguing bets for those who don't want to be caught on the receiving end of the one-two punch of stagflation (inflation and stagnant economic growth).

Consider **Hydro One** (TSX:H) and **Fortis**, two Steady Eddies with rock-solid dividends and a low correlation to broader equity markets. The dividend can help you alleviate the pressure of inflation, while the low beta on each stock can help you tame volatility. Indeed, it's the best of both worlds in an era where investors need to balance two risks. The risk of losing purchasing power via inflation and the risk of downside in a recession-driven market pullback.

Hydro One and Fortis: Utility stocks are still better than bonds

Hydro One is up a respectable 6% year to date, thanks to the risk-off appetite. Indeed, the boring firm with a monopolistic footing in Ontario has become exciting again. It took a tech wreck and a correction to make Hydro One stock intriguing again, but I think investors of all ages should look to the stable bond proxy for stability in these rocky times. Yes, the stock isn't cheap at 21.6 times trailing earnings, but the 3.1% dividend yield can do wonders, as volatility and inflation pick up going into mid-year.

For investors looking for a bit more growth, Fortis may be the better bet. Like Hydro One, it has a low beta and is highly unlikely to reduce its payout, even in the worst of economic contractions.

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