Where to Invest: Defensive Stocks or 1 Inflation-Fighting ETF?

Description

Canada's inflation reading jumped 1% from February to 6.7% in March this year. Global supply chain disruptions and the ongoing war in Eastern Europe are the leading factors for the surge in prices of goods and services. The situation is worrisome, because high inflation impacts the value of all types of assets.

However, investors are better off holding income-producing assets than liquid assets. Cash tends to appreciate less over time or is more vulnerable to the negative impact of inflation.

The key is to be risk averse and stick to defensive stocks like **Emera** (TSX:EMA) and **Capital Power** (TSX:CPX). Both dividend-paying utility stocks have endured economic downturns and kept up with the payouts.

However, if you prefer diversified exposure to fight inflation, consider **iShares S&P/TSX Canadian Dividend Aristocrats Index ETF** (TSX:CDZ).

Defensive positions

Emera and Capital Power belong to the illustrious list of Dividend Aristocrats in Canada. The former has increased its dividends for 15 consecutive years, while the latter's dividend-growth streak is eight years. You're taking a defensive position if you purchase either one or both in Q2 2022.

The utility stocks' growth streak should provide compounding dividend growth notwithstanding the rising inflation. While the share prices aren't immune to fluctuations, the dividend payouts should be rock steady.

Emera generates stable and recurring cash flows every year, because it invests heavily in regulated electricity generation and electric & gas transmission and distribution. Another competitive advantage of this $16.99 billion energy and services company is geographical diversification. Besides Canada, Emera has utility assets in the U.S. and four Caribbean countries.

Capital Power is an exciting long-term prospect, as the world transitions to clean energy. The primary focus of this $4.94 billion growth-oriented wholesale power producer is sustainable energy and commits to be off coal by 2023. While net income in 2021 fell 33% to $87 million versus 2020, net cash flows from operating activities increased 42% year over year to $867 million.

Emera trades at $64.72% and pays a 4.11% dividend. However, the share price ($42.57) of Capital Power is lower, and the yield (5.15%) is higher.

A basket of Dividend Aristocrats

BlackRock's iShares S&P/TSX Canadian Dividend Aristocrats Index ETF seeks to replicate the S&P/TSX Canadian Dividend Aristocrats Index (net of fees and expenses). Would-be investors would have a basket of high-quality, dividend-paying TSX stocks.

At $33.96 per share, CDZ pays a modest 3.30% dividend. While the yield is lower compared to Emera and Capital Power, this exchange-traded fund (ETF) has increased its ordinary cash dividends annually in the last five years, and the payout is monthly. Also, the 6.74% year-to-date gain indicates the ETF is holding up well amid the headwinds.

The fund owns shares of the top TSX dividend stocks in nearly all 11 primary sectors, except for technology. CDZ also owns shares of Emera and Capital Power. According to BlackRock, the ETF carries a medium-risk rating, and it rebalances the portfolio every year.

Marketplace to create income

The stock market is not without risks, but it's the marketplace to create or earn passive income if everything has gone up. Defensive stocks like Emera or Capital Power and an ETF like CDZ can help limit the impact of inflation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:CPX (Capital Power Corporation)
3. TSX:EMA (Emera Incorporated)

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cliew