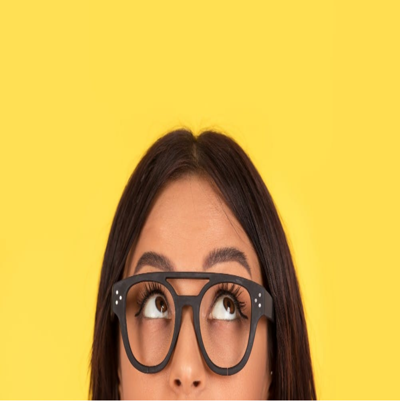

2 Dividend Stocks to Buy if You Fear Stagflation

Description

Stagflationary headwinds could have the potential to be strong if the Bank of Canada does not play its cards right. Arguably, the Bank of Canada has already made a mistake by letting inflation run free. Today, Canadian CPI is above 6%. There's no telling when it will peak. With the modest rate hike delivered so far this year, it's clear that inflation isn't being taken as seriously as it should have been. In any case, central banks can still make up for the lack of rate hikes to put a stop to the price increases that are not good for Canadians.

Though the U.S. economy could tip into an economic contraction at the hands of rate hikes, I don't think a stagflationary future is the likeliest scenario. In Canada, the economy looks robust, thanks to high commodity prices.

Indeed, the TSX can stomach more rate hikes than the Nasdaq 100. Given this, inflation seems far worse than an economic slowdown here in Canada. In the U.S., though, sky-high commodity prices are not good news. Unfortunately, stocks tend to follow in the footsteps of the American economy. If it were to fall into a troubling middle ground that sees stagnant GDP growth alongside elevated inflation, there is a risk of stagflation.

What types of dividend stocks should investors think about buying? Ones with lower correlations to the broader TSX Index. Consider **Fairfax Financial Holdings** (TSX:FFH) and **BCE** (TSX:BCE)(NYSE:BCE). These two dividend stocks have what it takes to hold their ground as Mr. Market starts punishing the broader basket.

Fairfax Financial

Fairfax is one of those unorthodox plays that can zig as markets zag. Prem Watsa is a true contrarian at heart, and he's also one of the most patient value hunters on the planet. He doesn't always get his way with investments, though. He can stand pat for prolonged periods, missing out on big gains to be had from a bull run. That said, his contrarian bets can pay off when markets finally do crash. Indeed, Fairfax is a great portfolio diversifier because of its ability to hold up in hard markets. Year to date, Fairfax stock is up nearly 8%. That's pretty good, considering the Nasdaq 100 is down around 22%

from its peak!

With a 4.3 times earnings multiple and a 1.9% yield, Fairfax was built for times like these. The underwriting track record is improving over time, and Watsa's investment-picking talents, I believe, will shine through, regardless of what the Fed does.

BCE

BCE is a telecom titan that I would not bet against when times are good. Things went from euphoric to downright scary in the past few quarters. And it's BCE stock that's looking pretty sharp these days, even as its shares fluctuated wildly through the bull run of 2020 and 2021.

Now, BCE stock was dragged lower alongside everything else over the past week. Shares slipped just shy of 5%, bringing the yield slightly higher to 5.2%. My takeaway? The telecom titan looks ripe for buying. I don't think the behemoth deserved to get punished amid the rate-hike-induced round of selling.

Still, BCE stock is a tad rich at 23.6 times earnings. In any case, the low beta and huge yield are more than worth the price of admission, especially for those who can already hear the bear's roar!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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Date
2025/08/25
Date Created
2022/04/30
Author
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