2 Dividend Stocks to Buy Right Now to Play a 2nd-Half Rally

Description

As the Fed winds down and tightens, the days of easy money will end. Though nobody wants economic damage, a bit of pain may have to be taken if inflation is to be brought down. Given how persistent inflation can be, it's better to be safe than sorry.

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After all, once rate hikes crush inflation (toward the 2-4% range), central banks can always begin to reverse course and cut rates gradually. Indeed, it's probably a better idea to hike aggressively now and run the risk of too many hikes than doing too little, too late, and letting inflation get comfortable where it is. At the end of the day, rate hikes are reversible; inflation's insidious effect on your wealth is not.

In this piece, we'll rotate back to two classic value stocks on the TSX Index that finally look worthy of a buy. Though they haven't imploded as some of the tech names in this market have, I think there's real value to be had in June before a potential second-half relief rally has a chance to kick off.

Even if we're not due for such a rebound, the following names seem discounted, with a solid risk/reward scenario for those willing to hold for the next five years. Consider shares of **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) and **Leon's Furniture** (TSX:LNF).

Algonquin Power & Utilities

Algonquin is a renewable power play that hasn't gone anywhere for nearly three years now. The stock is stuck, and COVID headwinds have not helped the firm pick its feet off the ground. Though the green energy tailwind is still very much in play, operational hiccups have weighed heavily. With sky-high oil prices — currently at US$120 per barrel of WTI — pressuring firms to seek other energy options, there's a real chance that the renewable energy tailwind could pick up traction.

Undoubtedly, nobody wants to overpay for fossil fuels, while also getting dinged for emissions. Algonquin has challenges, but it can overcome them. The stock trades at 28.8 times trailing earnings, with a 5.13% dividend yield.

Leon’s Furniture

For those seeking deeper value, it’s tough to stack up against iconic Canadian furniture retailer Leon’s. Home furnishings can be quite cyclical, and in the face of a recession, nobody is thinking about that new sectional or dining set. Still, the long-term trend is a friend of the furnishing plays. Indeed, Warren Buffett is a big fan of furniture retailers, despite their discretionary nature. They’re necessary, especially with the expected rise in millennial homeownership over the next decade.

Yes, a recession will hurt Leon’s numbers badly. However, the stock is already priced with nothing but pain in the cards over the medium term at 6.46 times trailing earnings. The 4% dividend yield is also rich and ready to scoop up.

The Foolish bottom line

Algonquin and Leon’s are great contrarian plays that look too cheap to ignore. Both names have huge dividend yields that are swollen due to recent share price depreciation. Algonquin is pricier as a result of tough times, while Leon’s is at a rock-bottom multiple in anticipation of a hard road ahead. I think both are worthy of buying in the summer to play a recovery that could ensue if inflation backs down quicker than we expect.

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2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:LNF (Leon's Furniture Limited)

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