TFSA Passive Income: 2 Top TSX Dividend Stocks to Ride Out a Recession

Description

Aggressive interest rate hikes at the Bank of Canada and the U.S. Federal Reserve will hopefully tame high inflation, but economists are increasingly concerned the economy will contract as a result.

With this thought in mind, it makes sense for TFSA investors focused on passive income to consider putting new money to work in defensive dividend stocks that pay you well during tough times and have decent outlooks for distribution growth.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) has raised its dividend in each of the past 48 years and intends to boost the payout by at an average of 6% annually through at least 2025. This is solid dividend-growth guidance in the current economic environment.

Fortis gets 99% of its revenue from regulated assets, including power generation, electric transmission, and natural gas distribution businesses located in Canada, the United States, and the Caribbean. These are essential services than homes and businesses require regardless of the state of the economy. The lights need to stay on, people need to cook, water has to be heated, and furnaces or air conditioners need to run.

Fortis grows through a combination of strategic acquisitions and internal development projects. The current $20 billion capital program is expected to increase the rate base significantly though 2026. This is why the board is comfortable providing the positive outlook for dividend hikes.

At the time of writing, the stock offers a 3.4% dividend yield.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communication services company with a market capitalization of $62 billion. The core revenue stream comes from mobile and internet subscriptions. These are essential services for people and companies in all economic situations.

BCE raised the dividend by at least 5% annually over the past 14 years. Investors should see steady payout growth continue along that pace, supported by rising revenue and free cash flow expansion. BCE expects free cash flow to be 2-10% higher in 2022 compared to last year.

Investments in fibre-optic lines running to the premises of customers and the expansion of the 5G network should drive revenue growth in the coming years while helping protect BCE's competitive position in the Canadian market.

BCE's media business took a hit during the pandemic, as advertisers closed their wallets, and the sports teams played in front of empty seats. An economic downturn could put pressure on ad revenue again, but the arenas should remain full, assuming there isn't another pandemic lockdown.

Business and holiday travel are rebounding. This should boost lucrative roaming fees in the second half of 2022. However, the revenue surge from roaming fees could stall out if an economic contraction keeps executives and vacationers at home.

Overall, BCE should still be a solid buy-and-hold pick to ride out an economic downturn. The stock appears attractive at the current share price and offers a generous 5.4% dividend yield. This high yield and the reliability of the dividend should limit the downside risk for the stock price during a market correction.

The bottom line on top defensive stocks to buy now

Fortis and BCE are not immune to a weak economy or a market pullback, but the companies have strong revenue streams coming from essential services. The dividends should continue to grow at a steady pace, so investors get paid well to ride out volatility.

If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

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