Retirement Investors: 2 Top Defensive TSX Stocks to Own During a Recession

Description

Economists are increasingly predicting an economic downturn, as persistent high inflation forces the U.S. Federal Reserve and the Bank of Canada to raise interest rates faster and by larger amounts than previously expected. With a recession potentially on the way, investors with cash sitting in a self-directed TFSA or RRSP are wondering which stocks are best to buy.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) has raised the dividend in each of the past 48 years and intends to increase the payout by an average of 6% annually through at least 2025. This is the kind of reliability that should appeal to retirement investors who are looking to build self-directed pensions over the long haul.

Fortis is a great stock for investors who use dividends to buy new shares to harness the power of compounding. Market pullbacks provide opportunities for the dividends to buy even more shares, so investors benefit over the long run when the market recovers.

Fortis gets 99% of its revenue from regulated assets. This means cash flow tends to be predictable and reliable through good and bad economic times. The company has a $20 billion capital program on the go that will boost the rate base from roughly $30 billion to $40 billion through 2026. Additional projects are under consideration, and it wouldn’t be a surprise to see Fortis make another acquisition in the next few years.

The stock looks attractive after the recent pullback. Fortis trades near $61.50 at the time of writing compared to the 2022 high around $65. Investors who buy now can pick up a 3.5% dividend yield.

Telus

Telus (TSX:T)(NYSE:TU) typically raises the dividend twice per year and is targeting total annual payout hikes of 7-10% through at least 2025. This is solid guidance in an uncertain economic environment and suggests the management team is comfortable with the revenue and profit outlook over the medium term.

Telus gets most of its revenue from subscriptions to its internet, mobile, and TV services. The first two are necessary expenditures for individuals and businesses regardless of the state of the economy, and households will likely trim many other discretionary expenditures before cutting their TV subscriptions. Entertainment is an important distraction from the stresses of daily life and most TV services are part of discounted packages that include the mobile and internet plans.

Telus also has interesting subsidiaries that could deliver strong revenue growth in the coming years. Telus Health and Telus Agriculture saw revenue expand by double digits in 2021. Telus recently announced a plan to buy **LifeWorks** for $2.9 billion. The addition of the company will greatly expand the size of Telus Health, adding partnerships with domestic and international employer-provided digital healthcare programs.

Telus stock is down to $28.50 from the 2022 high above $34.50. Investors who buy now can pick up a 4.75% dividend yield.

The bottom line on top stocks to own in a recession

Fortis and Telus pay attractive dividends that will continue to grow over the next few years, regardless of the state of the economy. If you have some cash to put to work in a self-directed RRSP or TFSA pension fund, these stocks should be good defensive picks.

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aswalker