2 Top Canadian Stocks to Boost Your Passive Income in This Volatile Environment

Description

The equity markets have been highly volatile for the last few months, with the **S&P/TSX Composite Index** falling 14.5% from its April highs. Rising prices, higher interest rates, and continued geopolitical tensions have dragged the equity markets down. Given the uncertain outlook and expectation of a recession due to yield curve inversion, I expect the markets to remain volatile in the near-to-medium term.

Yield curve inversion occurs when the 10-year treasury yield falls below the 2-year treasury yield. Investors consider the inversion to be an indicator of an upcoming recession. Amid the challenging environment, investors should look to invest in quality dividend stocks to strengthen their portfolios and earn stable passive income. Meanwhile, here are my top two picks.

Algonquin Power & Utilities

With an impressive track record of raising its dividends at a compound annual growth rate (CAGR) of over 10% for the last 12 years, I have selected **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) as my first pick. The company operates a low-risk utility business, meeting the electricity, natural gas, and water needs of 1.2 million customers across the United States, Canada, Chile, and Bermuda.

The company owns and operates a diverse portfolio of 43 renewable power-generating facilities, with a combined capacity of 2.5 gigawatts. It sells 82% of the power produced from these facilities through long-term power-purchase agreements. Plus, it has an economic interest in 1.4 gigawatts of power-producing facilities.

So, these long-term agreements and low-risk utility businesses generate stable and predictable cash flows, allowing the company to raise its dividend consistently. Its dividend yield for the next 12 months currently stands at a healthy 5.43%. In other words, an investment of $100 in the company can generate $5.43 per year in dividends for the investor.

Meanwhile, Algonquin Power & Utilities has planned to invest around $12.4 billion from 2022-2026, including acquisitions. These investments could expand its rate base at a CAGR of 14.6% while growing its adjusted earnings per share (EPS) at an annualized average rate of 7-9%. Considering all these factors, I believe the company's dividends are a safe bet.

Enbridge

Another reliable dividend stock is **Enbridge** (TSX:ENB)(NYSE:ENB), which has been paying dividends uninterruptedly for the last 67 years. The midstream energy company operates over 40 diverse businesses and generates 98% of its cash flows from long-term contracts. Around 80% of its earnings before interest, tax, depreciation, and amortization (EBITDA) is inflation indexed, allowing the company to pass on increased expenses to its customers.

So, it generates stable and predictable cash flows, which has allowed the company to increase dividends for the last 27 years at a CAGR of over 10%. With a quarterly dividend of $0.86/share, its yield for the next 12 months stands at 6.2%.

Enbridge has planned to invest around $5-$6 billion annually for the next three years, strengthening its midstream and renewable assets. Besides, rising energy demands could increase the throughput of its liquid pipeline segment, to further drive its financials in the coming quarters. Meanwhile, the company's management projects a 5-7% annual growth in its distributable cash flows through 2024. So, I believe the company is well-positioned to maintain dividend growth.

Enbridge's financial position looks healthy, with its liquidity sitting at $4.3 billion at the end of the first quarter. The company's valuation also looks attractive, with its price-to-earnings multiple for the next 12 months at 18.3. This means an investment of around $18.3 in Enbridge will earn about $1 over the next 12 months.

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1. Dividend Stocks
2. Energy Stocks
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