Recession is Coming: Is Your Passive Income From Dividend Stocks Safe?

Description

Bank of Canada Governor Tiff Macklem already said that the inflation rate would remain "painfully high" for the rest of 2022. He adds, "We need to moderate demand, give supply time to catch up, and take some steam out of inflation." While the ultimate goal is to bring inflation down, economists fear that more rate increases will send the country into a recession.

According to Macklem, front-loading interest rate hikes is the best chance for a soft landing. Unfortunately, the aggressive rate hike campaign impacts negatively on the investment landscape. For instance, the **TSX** fell to 19,999.7 on May 9, 2022 after two rate hikes. Also, the index hasn't risen above 20,000 since June 10, 2022.

Still, Macklem emphasizes that the Feds aren't expecting a recession. Instead, the central bank projects economic growth to slow materially. However, the warning spooked investors, especially those relying on dividends for passive income. A rebalancing of your portfolio might be in order to ensure dividend safety and uninterrupted passive income.

Look beyond the dividend yield

Scott Bishop, a certified financial planner and executive director of Avidian Wealth Solutions notes that, "People sometimes chase dividends, and they don't understand the risks. While a higher dividend payout may be appealing during a flat or down market, it's important to assess what you're buying before adding new assets to your portfolio."

His advice to investors is to scrutinize their picks of dividend-payers and adds, "You shouldn't just look at dividend yield." Historically, dividends have contributed significantly to a stock's total return. The payouts also boost regular income during economic downturns.

However, to feel safe and secure, stick to dividend aristocrats for good measure. This breed of stocks increase dividends annually regardless of the economic environment. **TC Energy** (TSX:TRP)(NYSE:TRP) and **TELUS** (TSX:T)(NYSE:TU) are two of TSX's reliable income providers. Their dividend growth streaks are 21 and 18 years, respectively.

Diversified, high-quality assets

TC Energy (+19.68% year-to-date) is benefiting from higher crude prices in 2022, although it isn't the only reason to invest in this energy stock. The $67.5 billion company provides critical services to North America's midstream industry. Since about 94% of EBITDA comes from rate-regulated assets or long-term contracts, TC Energy will keep producing strong cash flows to support dividend growth.

If you invest today, the share price is $68.63, while the dividend yield is an attractive 5.25%. According to management, would-be investors can expect 3% to 5% dividend growth.

Potent asset mix for high-growth

The business of TELUS is known and vital to Canadians. This $39.9 billion company is part of the sector's Big Three, although it's a pure-play telco stock compared to **BCE** and **Rogers Communications**. As of July 22, 2022, TELUS trades at $28.90 per share (-0.96% year-to-date) and yields an equally attractive 4.39% dividend.

Canada's second-largest telco is a cash cow owing to its increasing revenues every year since 2018. For this year, the run-rates for revenue and net income are $17 billion and $1.7 billion, respectively. Darren Entwistle, President and CEO of TELUS, said the highly differentiated and potent asset mix is geared towards high-growth, technology-oriented verticals.

Assess your portfolio

With a potential recession on the horizon, it's time to assess your dividend stock portfolio. Your holdings should match the qualities and strength of TC Energy or TELUS.

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