Banks or Energy: Which are the Better Dividend Stocks?

Description

Dividend stocks are a strong way to create passive income outside your share returns. While share prices can be a bit shaky, dividends are usually paid on a consistent basis, at a consistent or steadily rising price.

Two areas where investors may look for dividend stocks are the energy and bank sectors. And both industries are performing well! However, does one come out on top over the other?

Today, we'll dive in and see.

Energy stocks

Energy stocks have long been a solid place to look for dividend stocks. Oil and gas companies have decades of growing income fro the soaring use and prices of oil and gas. As energy demand rises, companies can create long-term contracts with clients, and boost dividends again and again.

But lately things have been changing. What was once a solid industry is now going through a shift. That's thanks to renewable energy, coupled with soaring gas prices. Investors may want to think twice if they're looking for long-term cash, as even the Organization of Petroleum Exporting Countries (OPEC+) has forecasted a huge drop in oil and gas use through to 2040 and beyond.

So the oil and gas sector doesn't look as stable as it once did. However, clean energy is another area that could bring in strong returns and solid passive income. These are also usually dividend stocks, but you'll have to do a bit more digging to find the right one for solid income.

For me, a solid choice would be **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP). Brookfield stock offers a yield of 3.26%, and has been around for decades in the renewable energy sector. It's backed by **Brookfield Asset Management** as well, so Brookfield stock is a strong choice as the world shifts to clean energy. Especially with European countries picking up contract after contract lately.

Bank stocks

With bank stocks, it's a different situation. Here you do not only invest in one industry, but several financial services industries. This gives you a lot of exposure to the Canadian markets, as well as international in most cases.

The downside is that bank stocks can be pretty cyclical. Since they're invested in the market on a broad basis, they can swing when the market does. Consumers spending also affects financial services stocks. When inflation and interest rates go up, people stop taking out loans, which can include mortgages for purchasing a new house. As a result, lower spending can create cash flow problems for the banks.

Luckily, Canadian banks have provisions for loan losses that can offset downturns like the one we're experiencing now. So even though shares drop, they come back right away. With this safety net, banks are some of the most solid dividend stocks out there, increasing yields again and again.

So here, I would look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD). TD stock has been growing for years, expanding at a rapid pace in the United States, as well as online. It offers a laundry list of loan options, and options for do-it-yourself bankers wanting to cut costs. TD stock trades at just 10.45 times earnings, and has a 4.21% dividend yield as of writing.

Bottom line

When it comes to energy stocks and bank stocks, I would stay away from oil and gas stocks as a whole if you're looking for a long-term investment. However, the key here is diversity. Both Brookfield stock and TD stock are dividend stocks offering diversified portfolios that offer you global growth, and steady income.

But if were to choose one, I'd say TD stock and the bank stocks in general are due to bounce back quicker. These will also likely see more growth in dividends over the next few years. And while Brookfield stock is a great long-term hold, you may have to wait a bit before seeing your dividends increase as fast as those of the banks.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:TD (The Toronto-Dominion Bank)

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