A Canadian Dividend Aristocrat That'll Pay Passive Income Investors Through a 2023 Recession

Description

It's really hard to avoid the talk about the coming economic recession. Though many beginner investors may wish to get out ahead of the storm, I'd argue that there's a good chance that most of the recession risk is already baked into the **TSX** and **S&P 500.** With the S&P 500 down a hair shy of 25% (dipping below the lows seen in June), it's tough to tell just how low the market averages will go. Whether or not the current bear market exceeds the damage of the 2020 stock market crash remains to be seen.

In any case, investors must not follow the herd at a time like this. Yes, a recession will weigh heavily on earnings. That said, it's still possible to make money in a recession year. If anything, a recession year may see outsized gains, as stocks look to climb back from a rut that may not be nearly as bad as everyone from Wall Street to Bay Street were expecting.

Canadian investors: It's possible to make money in a recession year

When valuations are depressed, and it seems like nothing can go right, the odds are likely to be on the side of long-term investors. Indeed, dip-buying hasn't worked this year. Those who bought are likely licking their wounds right now, with markets hitting new 52-week lows. The market losers seem to keep on losing and eventually, investors will give up on dip-buying. Buying the dip has only led to losing money this year. Further, investor liquidity is being put to the test.

Though stocks are the best asset class for building wealth over the long haul, many seem to think that losing 7% in cash via inflation is far better than losing 20-50% in the equity markets. Indeed, it's a tough situation to be in for those who aren't ready to go against the grain and embrace the market volatility.

In this piece, we'll check out two stocks that will pay you cash dividends, even if the 2023 recession leads to further losses over the coming 18 months. Although investors shouldn't buy a full position at once. Rather, they should average down, nibbling in chunks on the way down. Eventually, a corner will be turned and you'll thank yourself for having braved this bear market. Investing in 2022 (and probably 2023) is all about delayed gratification.

Consider shares of **CIBC** (TSX:CM)(NYSE:CM), one of the cheaper dividend heavyweights with yields north of 5.5%.

CIBC: A banking underdog with a huge dividend for passive income seekers

CIBC doesn't get as much respect as its bigger brothers in the banking scene. Its performance in past recessions (with the exception of the short-lived coronavirus downturn) has been abysmal. CIBC stock got absolutely hammered in 2008, taking far longer to recover than its Big Five peers. CIBC's above-average exposure to mortgages is seen as a scary thing by many investors. Though higher rates and looming layoffs could weigh heavily on the Canadian housing market, don't expect a repeat of the events that unfolded in 2008.

This time around, CIBC has what it takes to power through loan losses. Further, its new management team seems far better at risk management. They've got a big mortgage book, but I don't think the bank overextended itself when credit was good, and rates were near nil.

As rates rise, CIBC will feel pressure on its mortgage book. But it's more than manageable, in my opinion. The CET1 ratio – a measure of a bank's financial strength comparing common equity to risk-weighted assets – is almost 12%. And that's with higher expenses and provisions considered. In simple terms, CIBC's capital structure is still solid, with enough stability to survive a mild recession in 2023.

Down about 28% from its high of around $83 per share, CIBC stands out to me as a misunderstood bargain. The 8.6 times trailing price-to-earnings (P/E) multiple is well below industry averages. Though earnings erosion is on the horizon, don't expect CIBC to go down and stay down as it did in 2008.

It's better-prepared and could be one of the leaders once the recession ends.

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