TSX Dividend Stocks to Buy Now as Interest Rates Surge

Description

Interest rates are continuing to power higher, as the Bank of Canada and U.S. Fed (the Federal Reserve) keep increasing interest rates at breakneck speed. Indeed, those who have mortgages are feeling the full weight of the recent rate increases. Other heavily indebted Canadians (think consumer debt) are also at risk of falling further behind with every move from hawkish central banks.

Indeed, many Canadians hold considerable sums of debt. And higher interest rates could spark a recession that may outdo the 2020 coronavirus recession. In any case, I do think rates may be closer to peaking than we think once inflation shows signs that it's back on the retreat. Indeed, rate hikes can be a great tool to lower inflation.

As consumer price index (CPI) numbers come rolling in, expect any better-or worse-than-expected result to have a drastic impact on equity prices. Even the slightest miss could bring forth a wave of volatility. Nothing us investors haven't already experienced amid this brutal bear market, though! On the flip side, a beat (lower-than-expected inflation) could kick off a sizeable rally that could put investors who are hesitant to buy the dip at risk of missing out on the slate of market bargains.

Dividend stocks look intriguing as rates rise

Indeed, predicting rates or inflation is hard. That's why it's wise to be ready for anything thrown your way. Right now, I believe too many investors are feeling gloomy. Sure, there's a lot of risk out there today. However, one must not discount the possibility of things getting better for a change.

Looking ahead, many will hope for the Fed and Bank of Canada to "pause." Such a pause would be soothing to markets. In any case, after a pause will come hopes for rate cuts. And if such cuts aren't in the cards (the economy may be too robust), stocks could find themselves rallying higher, but modestly so.

There are two dividend stocks that could thrive in a higher-rate environment (4-5%) that persists for years. Consider **TD Bank** (TSX:TD) and **Royal Bank of Canada** (TSX:RY), two Canadian banks that could benefit from higher rates and a resilient economy. I'm going to focus on the former play, as it looks to be the cheaper of the two financial behemoths.

TD Bank

TD Bank is a deposit-heavy Canadian bank with growing exposure to the U.S. market. Over the past year or so, TD has been putting its cash hoard to work, with the acquisition of First Horizon and Cowen. Both deals beef up TD's American and capital markets businesses at a time when valuations are looking good. Indeed, TD's patience has paid off big-time amid its recent dip-buying spree. Though only time will tell if its entry points are ideal.

As rates rise, TD (and all other Canadian banks) will enjoy a modest boost to net interest margins (NIMs) on deposits. A NIM boost is nice to have, but it's not a game-changer or source of recession resilience. Recession-driven loan losses can still mount quickly. That's what most investors fear with the big banks like TD or RBC right now. If there's a recession ahead, TD stock will not be spared as provisions creep higher once again. Long-term bank investors know what to expect when loan growth begins to sink.

In any case, TD stock is cheap at 11.2 times trailing price-to-earnings (P/E), with some chance of a recession already factored into today's multiple. The 4.02% dividend yield is also very intriguing and ready to grow over the next few years, thanks in part to recent acquisitions.

Bottom line

TD and RY stocks are two top blue-chip plays I'd not be afraid to buy right now. Both are attempting to stage a comeback after nasty corrections. With a mild recession baked in, I'd argue that long-term dip-buyers have the most to gain. And not just in the form of capital gains in the face of a market-wide bounce-back, but swollen dividends that are likely to keep on growing through thick and thin.

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