TFSA: 2 Stocks To Earn Passive Income Even in a Recession

Description

In a recession, investments go downhill, and optimism takes a backbench. Now is the time when passive income comes in handy. Large-cap dividend stocks are some options for passive income. But let me put a note of caution. The recession is a tough time for individuals and businesses alike. Companies conserve cash to get through a recession. There is a possibility that some dividend aristocrats might stall their dividend growth. But sustaining current dividends is a significant achievement in a recession.

Two stocks to earn passive income in a recession

The best investment in a recession is resilient stocks with limited downside. Here are some resilient dividend stocks for your Tax-Free Savings Account (TFSA) that can keep paying you dividends even in a recession.

Growing passive income

A Canadian dividend aristocrat with a history of paying dividends for 67 years, **Enbridge** (TSX:ENB) has earned investors' trust. The pipeline company survived the 1990s recession, 2007 Global Financial Crisis, 2014 oil crisis, and the COVID pandemic. It either maintained stable dividends (1986-95) or slowed dividend growth (2020-2022) but never cut dividends.

This historical performance shows the company keeps shareholders' interests in mind, but past data does not guarantee future returns. The current recession could play out well for Enbridge. The global energy crisis is changing the supply chain. North America has Europe as a new customer for its liquefied natural gas (LNG). Enbridge is tapping this LNG export opportunity by focusing its capital on gas transmission, distribution, and storage projects.

Enbridge's dividend policy is to distribute 60–70% of its distributable cash flow (DCF) as dividends. DCF is calculated after deducting maintenance and financing costs. A 70% payout ratio gives Enbridge sufficient cash flow to maintain liquidity and fund future growth projects. However, management can reduce dividend payments if business demands. So far, Enbridge is on track to increase its 2022 DCF by 8%, which could mean 5-8% dividend growth.

Enbridge's cash flow depends on oil and gas volumes transmitted through its pipelines. If the recession deepens and impacts the demand for oil and gas, it could reduce Enbridge's cash flows. In the worst-case scenario, Enbridge might pause dividend growth, but it would continue paying dividends. If you invest $2,000 now, you can lock in an annual passive income of $124 throughout the recession. Once the economy recovers, Enbridge might resume dividend growth and grow your $124 passive income in the long term.

Other ways to earn passive income from a bank

Talking about resilient stocks, you can't miss out on one of the Big Six Banks of Canada, the **Toronto-Dominion Bank** (TSX:TD). It is known for its significant exposure to the United States. The bank is resilient as its operations include retail banking, commercial banking, and wealth solutions. The rising interest rates and slowing economic activity did slow TD Bank's earnings and stock price growth. The bank saw continued momentum in Canadian banking operations (banking and insurance volumes, record credit card sales). But its wealth revenue declined amid a slowdown in the stock market.

TD Bank is in the middle of two major U.S. acquisitions scheduled for completion in the first quarter of 2023. The acquisition of First Horizon Bank could accelerate TD's U.S. retail bank growth strategy, and that of Cowen could boost TD's wholesale banking. TD Bank has over a 30-year history of paying quarterly dividends without dividend cuts. In past crises, the bank maintained its dividend per share rate and later, when conditions improved, grew dividends.

TD Bank has the balance sheet to withstand a recession and the liquidity and cash flows to maintain its current annual dividend per share of $3.56. Investing slightly over $2,000 can buy you 22 shares of TD Bank paying out $78 in annual dividends during the recession.

Some investing tips for a recession

No company is immune to a recession. The above stocks have a good chance of surviving a crisis and preserving your investment. But they might not give you significant growth in a strong economy. Therefore, it is better to have both dividend and growth stocks in your portfolio to get the most out of stock market volatility.

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2. Dividend Stocks
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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)

4. TSX:TD (The Toronto-Dominion Bank)

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