2 Dividend Stocks That Could Lead a 2023 Rally

Description

Broader stock markets sunk lower this week, as fears grew over Fed rate hikes that could bring forth a recession in 2023. Undoubtedly, this bear market has dragged on for quite some time. To many beginner investors, this has been the most brutal year to be a holder of securities.

Stocks and bonds were both in the gutter for most of the year. As the new year and a potential economic downturn rolls around, many may be wondering if it's a better idea to continue investing in solid dividend payers or to settle with cash and risk-free securities like GICs (Guaranteed Investment Certificates).

Though stocks seem like a lost cause, new investors should be looking to invest for the next five or six years at minimum. With such a horizon in mind, another few months (or quarters) of choppy moves shouldn't matter as much. We've heard many market watchers and pundits lowering their price targets over the past year. Many don't expect fireworks in the new year. Even if the bearish pundits are right and there's not much in the way of gains for 2023, there's still a way to get compensated for staying aboard this rollercoaster.

Dividends make it worthwhile to hold stocks in a recession year!

Dividend stocks with secure payouts will keep on paying you through this bear market. Even if markets keep sinking lower, it's the dividends that will help you keep your cool, as you let your investments do their thing.

In this piece, we'll consider two discretionary stocks with juicy dividend payouts. They've been hit hard this year, but as the bear market runs its course, it's such names that could have the most room to run as the bull market makes a return.

Magna International

Magna International (TSX:MG) is an auto-parts maker with a stock that's already taken on considerable damage. Shares are down around 36% from their highs. With a dividend that's swollen just to around 3%, the leading Canadian parts manufacturer is an intriguing name that'll pay you while you wait for the tides to turn. Undoubtedly, Magna stock could still be at risk of double-digit percentage losses from here if a 2023 recession is hotter than mild.

In any case, the stock is right back to where it spent most of the past five years (the $75-85 range). At 18.54 times trailing price-to-earnings (P/E), you're getting a great company that may already have a lot of earnings "damage" baked in. The real upside could arrive if the Bank of Canada (BoC) is able to create a soft landing for the economy amid rate hikes.

Leon's Furniture

Investors were quick to dump **Leon's Furniture** (TSX:LNF) stock in this bear market. Recessions tend to be most unkind to the retails of goods that are nice to have. Indeed, consumer sentiment has taken several steps back. Demand for big-ticket purchases is expected to be quite muted going into a recession year.

Still, the labour market remains robust, and Leon's stock seems to already have had a band-aid ripped off. The stock plunged more than 40% from peak to trough. Now off 35% from its peak, I think investors are starting to discover how cheap the 3.9% yielder is, even with macro headwinds poised to weigh sales and earnings down.

At six times trailing P/E, LNF stock is a steal of a deal at these depths.

Bottom line

Discretionary stocks like Magna and Leon's offer great dividend yields at attractive multiples. Do fasten your seatbelt, though, as discretionary stocks like Leon's are sure to be wild swingers, even in the latter stages of a bear market.

CATEGORY

1. Investing

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1. TSX:LNF (Leon's Furniture Limited)
2. TSX:MG (Magna International Inc.)

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