Recession-Resilient Dividends: 2 Blue Chips I Wouldn't Hesitate About Buying Today

Description

With a recession on the way, many investors are rotating from growth plays to traditional value names with dividends. As share prices fall across the board, yields are bound to swell. However, not all swollen dividends are worth grabbing at, even if a payout is more than sustainable. Why? Even high dividend yields won't mean much if capital losses stack up, weighing down an investment's total return.

A 7% yield is less meaningful if it comes alongside a 30% downside. Indeed, buying dips in quality dividend stocks tends to be a good idea for long-term thinkers. That said, extra due diligence must be exercised to ensure a payout doesn't have a chance to be put on the chopping block. Consider **Algonquin Power & Utilities** (TSX:AQN) stock. Just over a year ago, it was viewed as a dividend growth stock that shined above and beyond its peers.

Fast-forward to today, and rising interest rates have sent the former market darling into the biggest rut in its history. The roadmap is unclear as we move into 2023. The dividend may or may not be the same size in a year from now. Of course, we'll have to wait and see how Algonquin fares through what's sure to be a tough year for the global economy.

Personally, I wouldn't chase Algonquin or its dividend (10.5% yield at writing) at this juncture. The stock is in free-fall, and it's becoming increasingly difficult to evaluate the stock, as analysts continue to downgrade the name.

Instead of chasing yields on former darlings, I'd much rather settle for a resilient, but still bountiful blue chip that can help sail through a recession without taking on too much damage. At this juncture, the telecom stocks look enticing. At writing, **BCE** (TSX:BCE) and **Telus** (TSX:T) stand out as a terrific value.

BCE

BCE stock is flirting with bear market territory again, with the behemoth slumping alongside the TSX over the past month. The stock now yields 6.2%. Should negative momentum continue into the new year, we could see a 7% yield. Despite the challenging macro and underperforming media division, I do think that whenever a stellar blue chip like BCE offers a yield north of 6–7%, income investors should be ready to act.

Now, BCE may not be immune to economic disturbances. However, its dividend is about as safe as supersized dividends come. It's certainly not an Algonquin-esque play! The annualized dividend is at risk of becoming larger than the year's earnings. This is a concern for most firms. However, BCE will still be raking in considerable amounts of free cash flow to pay its investors.

BCE has challenges, but at 19.3 times trailing price-to-earnings (P/E), I view BCE stock as a great deal for income-savvy investors.

Telus

Telus stock is touching down with 52-week lows after the past week's plunge. Shares now yield 5.3%, with an 18.3 times trailing P/E. Telus is less bountiful than BCE, but cheaper, with better growth prospects. If you're an investor seeking better total returns over the long run, T stock should be the preferred option here. Arguably, Telus's dividend may be one of the better ways to fight off the next phase of this inflationary bear market.

Indeed, Telus stock is in free-fall, but one has to think the 23% dip is overdone. At the end of the day, Telus is a sustainable dividend option that has a solid floor of support in the $25 range. Give it another handful of down days, and Telus stock may be a gift courtesy of Santa Claus this holiday season!

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:BCE (BCE Inc.)
3. TSX:T (TELUS)

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Author
joefrenette