2 Safe Dividend Stocks to Beat Inflation

Description

Inflation has been sky high lately. The recent inflation rate in Canada was 6.9% year over year (YOY) in October. Since inflation is a lagging economic indicator, it could be the perfect time to buy solid dividend stocks on dips. Here are a couple of safe dividend stocks you can count on to beat inflation.

National Bank of Canada stock

The big Canadian bank stocks had a round of dividend increases recently, including **National Bank of Canada** (TSX:NA) that increased its quarterly dividend by 5.4% last month. At first glance, this growth falls short of the recent inflation rate. However, the YOY increase of the dividend is 11.5% — the highest among the Big Six Canadian bank stocks.

Interestingly enough, National Bank of Canada stock has outperformed *all* its larger peers in total returns in the medium to long term — across the three-, five-, and 10-year periods. Perhaps it's because NA is the smallest of the Big Six Canadian bank stocks and is therefore easier to grow its profits from a smaller base. Specifically, in the last decade, NA stock delivered annualized returns of approximately 13.5%.

Many economists believe we will enter a recession next year, which is why bank stocks have pulled back. That being said, National Bank stock remains one of the top resilient bank stocks. On the recent dip to about $92 per share, investors can now buy shares for a safe yield of 4.2% in the quality bank stock that has an S&P credit rating of A.

Analysts believe the stock is discounted by about 11%. Combining its yield and stable earnings growth long term, investors should beat inflation in an investment in National Bank of Canada stock.

BCE stock

If you need more income now, you can turn to **BCE** (TSX:BCE) stock, which is starting to look attractive again with a dividend yield of over 6%. After substantial capital spending in the last few years, the big Canadian telecom should see evident improvement in its free cash flow generation soon. It means its dividend is about to get much safer.

BCE stock has a track record of increasing its dividend. Its 10-year dividend-growth rate is 5.5%. For reference, its last dividend hike was 5.1%. It's safe to anticipate another dividend hike of about 5% in February.

BCE could be one of the safest high-yield stocks to invest in currently. It's a defensive business with stable growth characteristics. At $59.62 per share at writing, it offers a yield of close to 6.2%. Assuming a 5% growth rate, investors could pocket an approximated long-term rate of return of more or less 11%. Additionally, analysts believe the stock trades at a discount of over 10% right now.

Interested investors can buy some shares now and add more in the blue-chip stock if it dips below $56 over the next few months.

Both National Bank of Canada stock and BCE stock have the potential to beat inflation in the long run, especially when inflation retreats to the central bank's targeted levels of about 2%. However, they are not short-term investments. If you believe you'll need your principal back over the next year, you'd better park your money in safer investments like a Guaranteed Investment Certificate.

CATEGORY

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2. Investing

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2. TSX:NA (National Bank of Canada)

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