



Why TELUS Stock Fell 12% Last Year

Description

Stocks are inherently volatile. The volatility is something that investors need to stomach when they invest in stocks. Even defensive stocks can fall meaningfully. For instance, **TELUS** ([TSX:T](#)) stock, driven by a solid business, still fell 12% in 2022. From its 2022 peak, it ended the year down over 24%! New investors may be perplexed as to why that could happen for a supposedly “defensive” [dividend stock](#).

Here, I'll discuss some possible reasons why the stock fell last year and why investors should hold or even add to their shares.

Reason one: TELUS stock had a good run in 2021

Like the general stock market, TELUS stock had a good run in 2021. Specifically, the big telecom stock climbed 18%. To dig a bit deeper, the COVID-19 pandemic caused a halt in the Canadian economy with freezes in the businesses for restaurants, hotels, and tourism during 2020. Consequently, it negatively impacted the economy and, along with the stock market, TELUS stock experienced a crash with the bottom coming in at around late March 2020.

At the time, the Canadian government pumped over \$200 billion into the economy as COVID-19 aid, including handing out money to Canadians who couldn't work and in desperate need of money, as well as provided temporary rent relief to certain retailers. This massive increase in money supply led to a rally in stocks, including TELUS, in 2021.

If you look at long-term stock price charts, you'll notice that stocks go up and down. It's not all that surprising, therefore, that TELUS stock fell in 2022 after a run-up in 2021. Additionally, there were other reasons for its drop.

Reason two: Higher interest rates

While the money supply increased during the pandemic, the opposite — capital tightening — occurred

in 2022. The Bank of Canada rose the benchmark interest rate seven times in the year. Ultimately, the interest rate was increased by 4.0% in total to 4.25%. The goal is to bring down the high inflation rate. The recent inflation rate in November was 6.8%. Compare that to the central bank's long-term target inflation rate of about 2%.

Higher interest rates increase the borrowing costs of businesses and consumers. So, generally, it's a negative for the stock market, which was why stocks were generally down in 2022.

The capital-tightening cycle may not be over yet. At least, interest rates may stay high for some time, even after it plateaus.

Reason three: TELUS stock was trading at a high valuation before

Even after the rally in 2021, TELUS stock had the momentum to rise another +21% before peaking at about 31.2 times earnings in April 2022. That's a historically high valuation for the big Canadian telecom. Furthermore, as mentioned earlier, rising interest rates pressured stock valuations in general.

TELUS stock's latest selloff may have been triggered by a credit rating downgrade from BBB+ to BBB in November 2022. Fitch noted its downgrade was "due to the effect on TELUS's credit profile from the acquisition of LifeWorks, which closed in September 2022." Although it's still an investment-grade rating, it suggests the stock's borrowing costs will increase and so is a riskier investment than previously.

The Foolish investor takeaway

Despite the decline in 2022, TELUS stock still trades at the highest valuation versus its big Canadian telecom peers. However, analysts believe it also offers the highest earnings-growth profile.

The stock provides very solid passive income from a healthy and growing dividend. At \$26.13 per share at writing, it offers an attractive yield of 5.4%. And analysts believe the [stock is undervalued](#) by 21%. Therefore, long-term investors should hold the shares, if not accumulate more shares, during this correction.

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