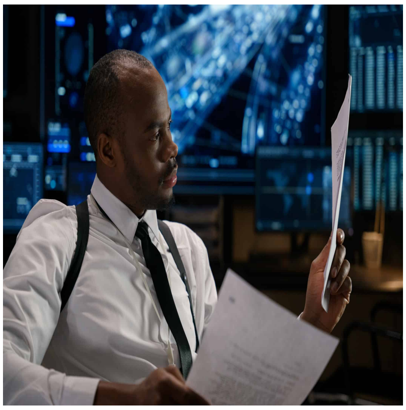

Worried About a Recession? 2 Defensive Canadian Dividend Stocks to Calm Your Mind

Description

Inflation soared to multi-year highs last year in Canada and the US. The Central banks in both countries decided to intervene by introducing a series of aggressive key interest rate hikes. By increasing borrowing costs, the Bank of Canada (BoC) and US Federal Reserve wanted to slow economic activity and bring inflation down.

While the measure can bring inflation under control, it is a double-edged sword that can lead to a major market crash. Multiple economists and analysts predict an imminent market crash hitting US and Canadian markets this year due to tightening monetary policies. Higher debt expenses reduce profit margins for companies, alongside hampering consumer spending.

Considering where the market could be headed, it might be wise to reallocate your capital to defensive assets offering a degree of recession resistance to your self-directed portfolio. To this end, I will discuss two defensive Canadian dividend stocks you can invest in right now.

Fortis

Fortis Inc. (TSX:FTS) is among the largest utility companies in Canada. The $26.9 billion market capitalization company owns and operates several electricity and natural gas utility businesses in Canada, the US, Central America, and the Caribbean.

Since it operates in largely regulated markets and relies on long-term contracted assets for its revenue, Fortis stock generates predictable cash flows. When recessions happen, people may cut down on costs on many things, but utilities are essential services they cannot do away with.

Fortis was impacted by the interest rate hike because its business model requires taking on a heavy debt load. Fortunately, the utility giant is well-capitalized enough to ride the wave.

The utility is on track to deploy billions to capital projects to expand its rate base, allowing it to continue increasing its shareholder dividends. The Canadian Dividend Aristocrat has a 50-year dividend growth streak that it is unlikely to break. As of this writing, it trades for $55.99 per share, boasting a juicy 4.04% dividend yield you can lock in right now.

Hydro One

Hydro One Ltd. (TSX:H) might not be as large as Fortis, but the $22.1 billion market capitalization utility is still among the largest. The electrical utility services provider enjoys a unique position in the industry. By offering electrical transmission services and load distribution without power-generation assets, it can enjoy higher profit margins than many of its peers.

Hydro One also boasts one of the strongest investment-grade balance sheets among utility stocks. Like Fortis, it also has a predictable growth profile because it operates in a highly regulated market. With such solid fundamentals, the company can comfortably increase its shareholder dividends. In the last six years, Hydro One stock has grown its shareholder dividends at an average of 5% annually.

As of this writing, Hydro One stock trades for $37.34 per share and boasts a juicy 3% dividend yield.

Foolish takeaway

Dividend investing can be a smart way to offset some of your losses during a market sell-off. Even if the recession-resistant assets see valuations decline with the broader market, consistent dividend payouts can keep providing you with some returns. Due to the essential nature of their services, you can count on utilities like Fortis and Hydro One to come out stronger on the other side after the dust settles.

If you are worried about a recession hitting the market soon, investing in Fortis and Hydro One stock can be a shrewd way to protect your investment capital.

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