The 2 Canadian Dividend Stocks You'll Want to Own in Tough Times

Description

It's not a mystery that tough times lie ahead. Many market participants have been bracing for the recession for many months, even quarters now. The hyper-growth trade has gone bust, with safety-seeking Canadian investors rushing to defensive dividend stocks, cash, or risk-free securities.

Understandably, the mood is quite gloomy. And unlike the early days of 2020, a V-shaped recovery seems less likely, with central banks continuing to raise interest rates. On Wednesday, the Bank of Canada announced that its latest rate hike could be the last. Indeed, the U.S. Federal Reserve (the Fed) could follow suit, as they've been seemingly following in the footsteps of Canada's central bank.

Fed pause or not, I think a scenario exists where markets could begin to look to rolling over inflation and the potential for a few rate cuts. Indeed, hyper-growth would benefit most from such a scenario. Regardless, dividend stocks still seem like the best bet to balance risk with reward.

As investors, minimizing downside risks can be smarter than maximizing upside potential. Of course, investing is all about risk, reward, and finding the right balance that works for you. In this environment, I can't say I'm ready to rush into the hyper-growth plays that continue to tread water amid waning sales growth and a vicious reset in valuation multiples.

Dividend stocks like **CN Rail** (TSX:CNR) and **BCE** (TSX:BCE) are Steady Eddies, and they continue to be a favourite among Canadian retail investors. Let's have a look at the two names and where their risk/reward profiles stand today.

CN Rail

CN Rail investors woke up to a 5% plunge, as the top Canadian railway reported some decent numbers that topped expectations. Despite clocking in $1.42 billion worth of earnings (up 23% year over year), investors seem rattled by a warning that a recession could weigh on shipment volumes.

CN chief executive officer Tracy Robinson noted that CN has dealt with recessions in the past and this "mild" is just another the firm will have to deal with. Indeed, management was quite cautious. In an environment like this, cautious is more than warranted. It's far better to be cautious in the face of the

unknown than to run the risk of overpromising and underdelivering.

Looking ahead, I think CN can impress from here now that investors are bracing from a recession to hit. CN is hardly recession proof, but it has shown it can navigate through hard times en route to a recovery. As such, I view the recent pullback as a buying opportunity for long-term investors confident in the rail giant's abilities to weather the coming storm.

BCE

BCE is a yield-heavy telecom that's not known for its superior growth prospects. While BCE may not be able to deliver the best total returns relative to peers, I think the 5.92% dividend yield is worth grabbing for if you need the income to make it through the inflation pinch and coming recession.

Down over 15% from its all-time high, BCE stock is pretty [modestly valued](#) at 20.1 times trailing price to earnings. The nice yield and 0.46 beta (lower means less correlation to the TSX) makes for what I expect to be a relatively smoother ride through 2023. With a mild recession likely partially factored in, BCE stock looks very tempting after its 2022 slog.

Personally, I think the valuation leaves a lot to be desired. The dividend yield may be large, but I could see shares returning to 52-week lows, where they command a yield well north of 6%. For now, I'd rather nibble into a position than buy a big stake all in one go!

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