WARNING: Don’t Miss This Key Advice From Banks in July

### Description

Recent comments from the U.S. Federal Reserve regarding monetary policy stimulus is, in my view, terrifying for investors. The American Central Bank’s move to keep interest rates near zero until 2022 will have significant consequences for all investors. In this article, I am going to discuss how investors can benefit from this global shift in monetary policy.



## Bonds and bond-like securities will become more valuable

I’ve touted companies operating in sectors such as utilities as great defensive options for investors betting on a recession. I’ll have more to say on this topic shortly. With respect to the zero interest rate policy of most central banks, utilities actually serve a dual purpose in this regard.

Utilities generally generate a majority of their cash flows through regulated streams. The soundness and stability of these cash flows allows said companies to pay out very predictable and growing dividends. These dividend payments thus closely approximate coupon payments on bonds

This is why many investors refer to companies like **Fortis** or **Algonquin Power and Utilities** as bond-like proxies. As interest rates on government bonds (the risk-free rate) approaches zero, bonds and bond-like investments become more valuable due to the premium they provide.

## Defensiveness a new commodity

The defensiveness utilities provide, I argue, should be considered an asset class of its own by investors today. A company like Fortis or Algonquin carries very little in the way of various risks. This is due to the soundness of their business models.

Highly economically sensitive cyclical companies operating in sectors with high levels of exposure to downturns in the economy are not the place to be right now. Sectors like consumer discretionary carry high-beta risk factors. I think these are more elevated than most investors realize.

The detachment of stock prices from the structural fundamentals of the economy does not make sense to me. Defensive stocks like Fortis or Algonquin are, in most cases, underperforming stocks with highly cyclical, growth-oriented business models.

Owning anything closely tethered to high levels of future growth right now, without a much larger percentage of one's portfolio sitting in defensive stocks, could turn out very poorly if the market takes another leg down.

## Bottom line

With a medium-term landscape of low interest rates, high levels of unemployment, and a high likelihood of fits and starts with respect to an economic recovery, defensive stocks ought to make up a significant portion of one's holdings today.

I would encourage investors who hold such an investment thesis to consider utilities stocks like Fortis and Algonquin for this reason alone. I expect companies with high levels of cash flow generation and bond-like dividends which increase over time will greatly outperform the next five to 10 years at least. These are the high-beta growth names that have led the recent stock market advance from March lows.



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