



S&P/TSX Composite Index Climbs on Bank of Canada Announcement

Description

Canadian equities advanced slightly on Wednesday, led by the energy and financial sector, following a decision by the Bank of Canada to leave its key overnight rate unchanged.

By 12:00 Eastern Time, the **S&P/TSX Composite Index** (^OSPTX) was up 16.48, or 0.12%, to 13,968.25. In the U.S., equities were under pressure following renewed concerns that the Federal Reserve could dial back its monetary stimulus. The broad-based **Dow Jones Industrial Average** was down 31.21 points, or 0.19%.

The Bank of Canada's interest rate decision dominated the financial headlines. Governor Stephen Poloz said he was more concerned about weak inflation than he was at the start of the year. and explicitly stated that the Bank could raise or lower interest rates depending on how the country's economic recovery unfolded.

There was no change in the Bank of Canada's key overnight rate, which still stands at 1%. However, the bank warned "inflation is expected to remain well below target for some time, and therefore the downside risks to inflation have grown in importance."

Disinflation pressure will remain until 2016, which suggest interest rates could be on hold for much longer.

The market's reaction was swift.

The Canadian dollar fell 0.93% against its U.S. counterpart to US\$1.1071 – nearing a five year low against the Greenback.

Cyclical industries like energy and materials led the market higher. Oil behemoths **Suncor** (TSX:SU, NYSE:SU) and **Imperial Oil** ([TSX:IMO](#)) each were up 0.47% and 0.80% by midday.

Financials also rallied with **Royal Bank** (TSX:RY, NYSE:RY) and **Bank of Montreal** (TSX:BMO, NYSE:BMO) each adding 0.2% and 0.3% respectively.

There was also plenty of good corporate news to support the TSX rally.

BlackBerry (TSX:BB, NASDAQ:BBRY) was the top performer on the TSX today. Shares of the smartphone manufacturer rallied 7.2% to \$11.66 after the company announced plans to divest the majority of its Canadian real estate holdings. The move will shore up BlackBerry's balance sheet and buys Chief Executive John Chen more time to implement his turnaround plan.

Finally **Air Canada** (TSX:AC.A, TSX:AC.B) released preliminary estimates on Wednesday which show that its domestic pension plan swung to a small surplus versus a \$3.7 billion deficit last year.

The company credited the elimination of the deficit to a surging stock market, amended pension plan benefits, increased contributions from Air Canada. Shares of the Canadian airline were up 3.35% to \$9.25.

Foolish bottom line

Today's Bank of Canada commentary likely kicks any interest rate hike another year or two down the road. This means interest rate sensitive asset classes and industries — like real estate investment trusts, long-term bonds, dividend paying equities and bank stocks — are back in play. Buying longer duration securities in order to pick up some extra yield just got a lot safer.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BB (BlackBerry)
2. TSX:IMO (Imperial Oil Limited)
3. TSX:RY (Royal Bank of Canada)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date

2025/07/06

Date Created

2014/01/22

Author

rbailieul

default watermark