Rising Bond Yields Boost the Outlook for Insurance Stocks

Description

Investors have enjoyed the benefits of low bond yields for the past five years, helping to create a bull market for both the TSX and the S&P 500. However, bond yields have been climbing recently, a change that will have important portfolio implications for investors according to Richardson GMP Asset Management.

Higher yields put downward pressure on interest rate sensitive equity instruments, namely utilities, telecommunications, pipelines, and real estate investment trusts (REITs). “For dividend-focused strategies, this carries a greater importance given these are popular sources of dividend yield,” Richardson GMP said in a recent commentary.

“We are wondering at what point do higher bond yields start to weigh on the market,” said Richardson GMP portfolio manager Craig Basinger in a recent *BNN* interview. “We’re getting dangerously close to that point and if we get some better economic data out of the United States, we’re going to start to see some broader market weakness triggered by higher bond yields.”

“We don’t mind higher bond yields, it’s probably long overdue and as long as inflation remains muted, it’s not a bad situation for the equity markets,” Basinger added. “The caveat being that the market has become addicted to lower bond yields—we’ve had them for a long time and it’s inflated valuations in a number of areas that can’t handle bond yields moving higher. We think it might trigger some near-term weakness and create a bit of a buying opportunity as well.”

Basinger says Richardson GMP likes cyclical yields, so they’ve been trimming REITs and utilities over the last six months and have been adding to sectors such as insurance and other dividend-paying companies that can handle higher bond yields.

Two companies that make up a significant weighting in Richardson GMP’s connected wealth strategy are **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial Inc**. (TSX:SLF)(NYSE:SLF).

Manulife’s core net earnings increased 11% to $797 million in the first quarter, while revenues also rose 11% to $15.8 billion. In addition, Manulife pays a quarterly dividend of $0.17 per share for a dividend yield of nearly 3%. Manulife raised its dividend twice in the last year, including a nearly 10% increase in May, bringing its total dividend increase to 31% over the past 12 months.

Sun Life Financial's Q1 net income increased 17.3% to $516 million, while adjusted revenue edged up 0.3% to $5.7 billion. Sun Life pays a quarterly dividend of $0.38 per share for a dividend yield of 3.8%. The insurer increased its dividend by 5.6% in May.

Both Manulife and Sun Life have significant free cash flow, which could be used to boost dividends in the near future. In a rising bond yield environment, the two insurers can provide a source of protection for dividend-focused investors.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

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