Will Trump's Presidency Send Sun Life Financial Inc. and Manulife Financial Corp. Soaring?

Description

Insurance stocks **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) and **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) have been on a roll ever since Donald Trump was victorious in the U.S. election. After a flattish run this year, both Sun Life and Manulife stocks now look poised to end the year with double-digit percentage gains, leaving investors wondering if the rally has just begun and if Trump's presidency could lift the fortunes of the insurers.

The connection between Trump, inflation, and insurers

The U.S. bond markets have reacted dramatically to Trump's victory with yields on 10-year Treasury note logging gains not seen in more than a decade, hitting one-year highs even as I write this. Clearly, bond bears are attacking the markets in anticipation of rising inflation as the focus shifts to an expansionary fiscal policy in the U.S. under Trump's administration.

Simply put, if Trump delivers on his campaign promises of pumping US$1 trillion, or even a lower amount for that matter, to rebuild America's infrastructure funded through tax cuts, inflation would rise as employment and consumer spending picks up. That could push interest rates higher, which bodes well for insurance companies like Sun Life and Manulife as higher rates mean greater returns on investment.

As you might know, insurance companies typically invest the premiums collected in risk-free, fixed-income assets like government and corporate bonds.

For instance, nearly 62% of Manulife's investments are in debt securities and private placement debt with 40% of it in government and agency bonds. Geographically, 45% of Manulife's investments are based in the U.S. Likewise, Sun Life has invested half its assets in debt securities.

Should you buy Sun Life or Manulife now?

Higher interest rates are good for insurers, but there's a caveat. Uncertainty after Trump's presidency looms large, especially given his stance on Obamacare, trade relations with countries like Mexico and China, and NAFTA. No one knows yet what Trump will do and how his actions will impact insurance companies.

So don't let the interest rate hype influence your investment decisions. Focus on fundamentals and you won't go wrong. On that front, both insurers delivered strong Q3 numbers thanks to greater focus on higher-margin wealth and asset management segments and expansion into high-growth markets like Asia. This diversification–away from the sensitive insurance business and into global markets–should help Sun Life and Manulife grow even during depressed times.

Sun Life's medium-term targets of 8-10% average growth in EPS and return on equity of 12-14% look impressive. To top that, you're getting above 3% dividend yield–similar to Manulife's–which could come handy if the markets turn volatile. Unless situations turn dramatically adverse under Trump's presidency, you needn't worry if you own Sun Life or Manulife stock.

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