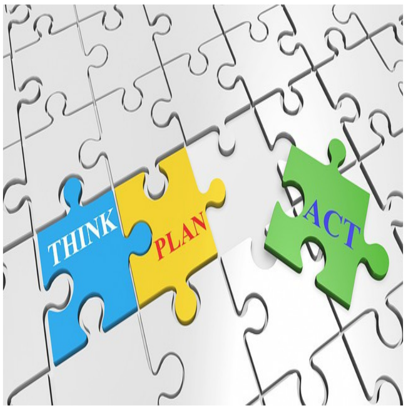

2 Dividend Stocks to Consider as Interest Rates Rise

Description

Investors are wondering if rising interest rates will hammer the share prices of their favourite dividend stocks.

The topic is a hot one around the water cooler these days, and the general belief is that Canadian telecom and utility stocks are in for a rough ride.

That might turn out to be the case, especially if rates increase at a faster pace than expected, but there is a chance the market might be getting ahead of itself, and the recent sell-off in some of the popular names could present a buying opportunity.

Nonetheless, many investors would prefer to steer clear of the telecom and utility sectors, and there are certainly other dividend picks in the Canadian market that should actually benefit as interest rates rise.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) to see if they are attractive right now.

CN

CN is literally the backbone of the U.S. and Canadian economies with a rail network that touches three coasts.

The company is widely viewed as the best-run name in the rail sector and regularly reports an industry-leading operating ratio, which measures the amount of money CN has to spend to generate each dollar of revenue.

CN is a very profitable company and kicks off solid free cash flow, even when the economy hits a slow patch. This is mostly due to the diversified nature of the revenue stream.

When one segment is struggling, other business lines tend to pick up the slack.

CN is based in Canada, but the company generates significant earnings in the United States, which provides a nice hedge against any potential weakness in the Canadian market.

What about interest rates?

The Bank of Canada just raised interest rates for the first time in seven years, and the Federal Reserve in the United States has already bumped up its target rate twice in 2017.

Rates generally rise during periods of economic strength, and that tends to be good news for industrial companies, such as CN.

CN’s dividend yield might only be 1.5%, but the company raises the payout significantly every year. In fact, the compound average dividend growth rate for the past decade is about 16%.

Sun Life

Sun Life operates insurance and wealth management businesses in Canada, the United States, and Asia.

The U.S. group is working through a rough patch right now due to some large institutional withdrawals for the wealth management arm, and that has taken a bit of wind out of the sails of the stock.

The issue shouldn’t be ignored, and investors will want to see an improvement in the coming quarters, but the long-term outlook for the company remains positive, especially as interest rates rise.

Why?

Insurance companies have to set aside significant cash to cover potential claims. This money normally goes into guaranteed investments that pay interest.

As rates rise, the return Sun Life gets on this money should also increase and help boost earnings.

Sun Life’s dividend currently yields 3.7%

Is one more attractive?

Both stocks should perform well as interest rates increase. However, I would probably make CN the first pick today.

Sun Life is appealing as a buy-and hold name, but I would wait for the next earnings report to come out see if the U.S. issues have been resolved before buying the stock.

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Date
2025/08/26
Date Created
2017/07/12
Author
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