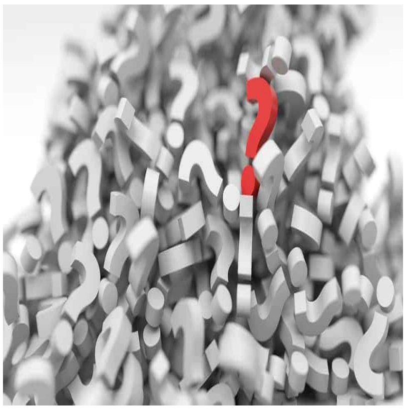

How Many Rate Hikes Are Likely Coming From the Bank of Canada?

Description

A number of questions surrounding the most recent decision of the Bank of Canada to raise interest rates have taken over much of the discussion in financial markets of late. Across North America, interest rate hikes have poured some water on red-hot markets, and investors and economists alike are trying to grasp what the future impact of additional rate hikes will be on the stock markets in Canada and the U.S. should rates revert back toward a higher long-term mean.

What the correct perceived long-term interest rate is remains a topic of debate, and how many rate hikes it will take to get to such a level is also uncertain.

What is certain, however, is that future rate hikes will impact different sectors of the economy in different ways. For example, the banking sector is one which should, in theory, respond positively to interest rate hikes over time due to increased margins and bolstered profitability linked to lending spreads. Smaller Canadian lenders such as **Canadian Western Bank** (TSX:CWB) have been touted as more sensitive to Canadian interest rate hikes and the performance of the Canadian dollar largely due to the heavy exposure these regional banks have to Canada and the Canadian economy in general.

Interest rate hikes in and of themselves tend to follow positive macroeconomic data; central banks tend to raise rates as a protective measure against inflation and to encourage saving and a moderation of growth in specific sectors that may becoming overheated. In Canada, much of the attention at the moment for market participants and those setting interest rates at the Bank of Canada is Canada's red-hot housing market.

Questions of how further interest rate hikes over time will affect the Canadian housing market abound, and economists are not generally in agreement about whether a soft landing or catastrophic event will culminate from these central bank actions. The most likely scenario remains one in which growth will be somewhat restrained over the coming quarters as additional rate hikes remain on the table, as governments look for a balanced approach to long-term growth and avoid large "boom and bust" cycles that have devastated markets in the past.

Bottom line

I believe that the recent rate hike by the Bank of Canada was a necessary one in that many Canadian markets have become bloated, and raising rates should, in theory, allow for Canadian savers to once again begin saving. The most likely long-term pace of interest rate hikes will be slow and moderate, as central banks will not want a repeat of other financial disasters that have been directly linked to rapid interest rate rises in short time frames.

Stay Foolish, my friends.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/07/17
Date Created
2017/07/13
Author
chrismacdonald