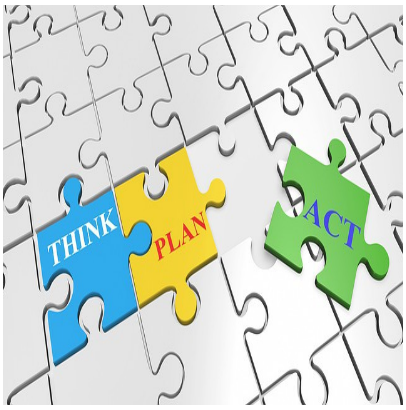

Combat Rising Interest Rates With These 2 Great Investments

Description

Interest rate changes can be a curse or a blessing.

For home owners, they represent a mixed bag of both. An increase in interest rates results can result in a higher payment, but those interest rate hikes are often followed by a slowdown in the price of homes, which itself brings those payments down further.

For weary investors that have been conditioned with very low rates for nearly a decade, the potential impact that rate changes could have on the market could be far reaching and uncertain.

Recent updates from the labour market also revealed the lowest jobless rate since before the Great Recession. That factor alone may be enough to convince the Bank of Canada to begin cooling off the economy with another interest rate hike.

While the Bank of Canada has indicated that a rate hike will not happen until October at the absolute earliest, most pundits do see another hike coming before the end of the year.

So where can an investor turn to in an environment of increasing rates?

Investments for Interest Rate Hikes

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is the largest insurer in Canada and holds a massive opportunity for investors.

Insurers like Manulife stand to see significant gains from interest rate hikes thanks to the nature of their business model. Simply stated, insurers charge clients a premium and reimburse clients through claims. The difference that is not paid out in claims is referred to as the float. That float is sitting in myriad investments, including securities and government debt, which pay interest.

You may think that a quarter percent increase might not translate into much difference, but when you factor in that Manulife has upwards of $300 billion invested, that tiny interest uptick can translate into a huge bump during earnings season.

In the most recent quarter, Manulife reported net income of $1,350 million with $1 trillion in assets under administration and management.

For investors contemplating Manulife, another reason to consider the company is the quarterly dividend. Manulife pays out a respectable 3.17% yield and has an established record of hiking that dividend over the years.

Toronto Dominion Bank (TSX:TD)(NYSE:TD) is one of the biggest banks in Canada, but few investors realize that TD has more branches in the U.S. than in Canada, and that's thanks to an aggressive expansion that TD pursued in the years following the Great Recession.

That expanded U.S. footprint comes with a huge amount of deposits, which is one of two reasons that TD is a great investment to turn to in an era of rising interest rates. As banks lend out money to customers, a higher interest rate translates into higher margins and eventually, greater revenue.

Another factor that pushes TD up on the list of candidates to consider investing in is the fact that TD's stock price has retreated somewhat over the past month, making the bank a great buy with a P/E of just 12.68.

In the most recent quarter, TD reported earnings of $2.5 billion, which shattered the figure from the same quarter last year by an incredible 22%. The U.S. segment, which already had the benefit of an interest rate hike or two, realized an increase in net income of 18%, coming in at $845 million. The Canadian sector saw net income of $1,570 million in the quarter, up 7% over the same quarter last year.

Should interest rates continue to rise in October as many predict, expect TD to report yet another great quarter before the end of the year.

In terms of a dividend, TD provides investors with a generous $0.60 per share quarterly dividend that amounts to an impressive 3.74% yield, making the bank a perfect addition to any portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:TD (The Toronto-Dominion Bank)
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