Top Stock to Own in a Rising Interest Rate Environment

Description

Many Canadian investors have enjoyed some of the perks from a rock-bottom interest rate environment for a long time now. For many of our portfolios, they're geared to receive the most benefit from such low interest rates. REITs and telecoms were huge beneficiaries of floored interest rates, but things are about to change. Investors may want to adjust their expectations as well as their portfolios to adapt to a rising interest rate environment.

Last month, the Bank of Canada raised interest rates for the first time in about seven years to 0.75%. This first hike is most likely the start of a gradual increase in rates over the long term.

Why?

The U.S. Federal Reserve raised its rates twice this year and could be taking a more hawkish tone over the next few years as the U.S. economy gradually strengthens once the Trump administration's agenda is put into place. A stronger U.S. economy will positively affect the Canadian economy and, likewise, interest rates in Canada are likely to rise at a faster rate over the next few years, in sync with our neighbours south of the border.

What does this mean for investors?

REITs, utilities, and telecoms will be negatively affected over the long term, so investors overexposed to these high-income-generating sectors should probably trim in favour of sectors that will be positively affected by higher interest rates.

The insurance industry is a great place to be over the long term as rates trend upward. Life insurance stocks like **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) are huge beneficiaries of rising rates thanks to the higher margins and the ability to obtain higher returns from cash reserved for claims that's usually put into fixed-income products.

Why Manulife?

Manulife is a ridiculously cheap stock that has very promising Asian growth prospects which, when combined with rising rates, will result in what I believe is a huge upward surge over the next five years. Manulife has exclusive partnerships with Asian banks, and the management team is looking for even more deals to increase the company's presence in Asia. Asia is a massive opportunity as US$30 trillion in wealth is passed down to the next generation.

Manulife also has a promising U.S. business in John Hancock. This business has been a laggard over the past few years, and investors are becoming impatient and have pushed for a spin-off or sale. I believe John Hancock is a great business which will start to pick up over the next few years. Sure, it's been an underperformer in the recent past, but I believe it's well positioned to benefit from a surging U.S. economy.

Bottom line

Manulife is a great growth play that will be realizing major tailwinds over the medium to long term. Shares currently trade at a 16.59 price-to-earnings multiple, a 1.3 price-to-book multiple, and offer a generous 3.17% dividend yield. That's definitely a small price to pay for the growth prospects and tailwinds on the horizon. There's also reason to believe that the dividend will increase at a greater magnitude over the next few years.

Investors who want to modify their portfolios to be better equipped to deal with a rising interest rate environment should strongly consider picking up shares of MFC today while they're cheap.

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