



TFSA Investors: 2 Dividend-Growth Stocks Set to Soar as Interest Rates Climb

Description

To many beginner investors, a rising interest rate environment in Canada is something new. As you've probably heard, the Bank of Canada hiked rates this summer for the first time in seven years, but what does this all mean to the individual investor? And how can you give your TFSA a long-term advantage by working with rising interest rates?

This summer's rate hike marks the start of what I believe is a gradual increase in interest rates over to higher levels over the next few years. There's no question that many industries benefited from low interest rates in the years following the Great Recession, but there were certain industries that dreaded rock-bottom interest rates as such low rates acted as a headwind for many years.

As the tides turn, and we slowly move towards a higher interest rate environment, many businesses may be set to enjoy a gradual boost in the coming years. Let's take a look at a few dividend-growth stocks that could potentially see their dividends grow at a much faster rate over the next few years, and why you should consider rebalancing your TFSA portfolio to include them.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#))

TD Bank is one of the safest and most stable dividend-growth stocks on the TSX. The management team has been aggressively expanding into the U.S., and it has come to the point where there are more U.S. branches than Canadian branches.

The U.S. Federal Reserve is set to hike interest rates over the next few years as the economy picks up. There have already been a few rate hikes this year and once Trump's agenda comes to fruition, expect the hikes to come at a quicker rate.

As rates rise, banks like TD Bank will enjoy greater profitability thanks to many factors, including a larger spread between federal fund rates and the rate paid to customers. TD Bank will be able to get more profit from its loans, and that means more money to put back in the pockets of shareholders through more generous dividend raises.

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#))

CIBC is another solid bank that's positioned to ride the tailwind of increasing rates in Canada as well as the U.S. CIBC is the cheapest Big Five bank with a mere 9.03 price-to-earnings multiple and a juicy 4.7% dividend yield.

The company recently bought its way into the U.S. through the acquisition of PrivateBancorp, which is expected to be accretive to earnings in 2020. Although CIBC will not benefit from rising U.S. interest rates and a strengthening U.S. economy in the short term, long-term investors can benefit from these tailwinds many years down the road, while being able to pick up shares at a huge discount to the intrinsic value.

Why is CIBC so cheap?

It has far less geographic diversification than its Big Five peers, and it has a considerable amount of exposure to the Canadian housing market, which many pundits believe is in a bubble. Over the course of the long term, the first issue has been dealt with, and the second issue is way overblown.

Going forward, CIBC is expected to make smaller tuck-in U.S. wealth acquisitions to further beef up its U.S. presence. Shares appear to be undervalued and set to ride many tailwinds in the coming years thanks to rising the company's U.S. expansion, rising interest rates, and a potential recovery in the Canadian economy.

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