



2 Market Darlings to Break Up With as Interest Rates Climb

Description

After many long years of rock-bottom interest rates, many Canadians may have forgotten what it was like in a high-rate environment. It's definitely been a long time, and for newer investors who started managing their own portfolios within the past few years, a rising interest rate environment may be completely alien to you.

REITs, utilities, and telecoms were some of the beneficiaries of the low-rate environment, but as we gradually move towards higher interest rates over the next few years, there are some market darlings that you may have grown attached to that may be set for sub-par performance in the coming years.

While many industries are set to benefit from higher interest rates, there are also plenty of businesses out there that see higher interest rates as a major long-term headwind. Here are two businesses which I believe may take the biggest long-term hits thanks to higher rates.

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#))

BCE has been a must-own Canadian blue-chip stock over the past few years. It's an absolute behemoth that has returned plenty of capital gains in addition to a large, growing dividend. Although BCE is a high-quality company with a dividend that income investors can count on, rising interest rates could dampen BCE's stock price appreciation and the magnitude of its dividend increases over the next few years.

Telecom companies are capital-intensive businesses, and as competition heats up in the Canadian telecom scene due to new entrants, BCE will find itself spending more cash on upgrades and customer-retention initiatives over the next few years. Unfortunately, that's less cash in the pockets of its shareholders.

BCE is a massive company with its \$53.1 billion market cap, so it's undoubtedly going to be difficult to grow by a meaningful amount going forward, especially considering the headwinds ahead of it.

The 4.87% yield may be attractive, but it's quite likely that shares of BCE will remain flat for quite some time.

Telus Corporation ([TSX:T](#))([NYSE:TU](#))

Telus is another one of the Big Three telecoms which is going against the grain as rates rise and as competition picks up. Freedom Mobile, the wireless carrier of **Shaw Communications Inc.**, is breathing down Telus's neck, and that's a major reason why Telus is expected to invest \$4.2 billion and \$4.7 billion on upgrades in Alberta and British Columbia, respectively.

That's a great investment for growth, right?

Not quite. This spending on upgrades is necessary just to keep up; otherwise, the company may risk losing subscribers to the up-and-coming Freedom Mobile, which I believe is a serious threat to Telus as well as the other Big Three incumbents.

All of that spending is likely to increase over the next few years, and all while interest rates rise. The 4.41% yield is compelling, but don't expect huge amounts of capital gains like those enjoyed in the past.

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