4 Great Investments that Should Profit From Further Interest Rate Hikes

Description

When Bank of Canada raised interest rates last month, it triggered one question in the minds of investors everywhere, almost instantly…

How can I alter my portfolio to capitalize on rising interest rates?

Fortunately, there's no shortage of options to pick from, and the following four companies are all poised to benefit from the recent interest rate hike as well as any future hikes.

Canadian Tire Corporation Limited (TSX:CTC.A) is one of Canada's most well-known retailers and continues a period of prolonged growth that has seen the stock appreciated nearly 10% over the past year and over 115% over the past five years.

What sets Canadian Tire apart from the competition?

The company has become a source of innovation, adding technology firmly into the buying process rather than appending it as a gimmick as many other retailers have. Examples of this innovation include using a driving simulator to try out tires in different weather conditions and trying on a VR headset to see how new patio furniture will look in your yard.

Why consider Canadian Tire? The vast majority of products that Canadian Tire sells are imported. As interest rates rise, so too should the loonie and, by extension, the buying power of Canadian Tire.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one of the largest of the Big Banks, but the real reason to consider TD has to do with the impressive footprint the company has in the U.S., which actually exceeds the number of branches that TD has in Canada.

Why consider TD?

Banks lend money and charge interest in return for access to that money. As interest rates rise, the cost of those loans will increase as the banks increase their rates to match the prime rate set by the Bank of Canada. The U.S. footprint of TD also has a massive amount of deposits, which stand to propel the bank even higher.

Sun Life Financial Inc. (TSX:SLF)(NYSE:SLF) is a huge insurer that has coverage scattered across Canada, the U.S., and Asia.

The insurance model works by collecting premiums from clients, which are used to cover insurance claims made from other clients. The difference between the two numbers is referred to as the float and is typically invested and making the insurer another stream of income.

As interest rates rise, so too will the earning potential of the float, which is typically invested into securities, and government bonds, earning interest. The amount of interest earned from those investments may not seem like much to most of us, but keep in mind that insurers can have billions sitting in these accounts, which could result in millions in additional earnings from a relatively minor rate hike.

Algonquin Power & Utilities Corp. (TSX:AQN)(NYSE:AQN) is a utility with huge potential, even before factoring in interest rate changes. Like most utilities, the majority of Algonquin's revenue stems from regulated power agreements that can run for decades.

Regulated power agreements translate into a steady stream of revenue for the company but often come at the cost of limited growth opportunity. One of the main advantages of investing in Algonquin comes in the form of a stellar dividend, which currently has a yield of 4.37%.

One point that is not mentioned enough with respect to interest rate hikes is that they rise slowly, and this is done intentionally. The 0.25% rate hike we saw in July might be followed up with another similar hike in October, but we're still looking at a total hike of 0.5%, which is still far behind the impressive yield that Algonquin offers.

In other words, unless the Bank of Canada raises rates by a huge amount each quarter over the next two years, Algonquin will still be a better investment.

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