COMPANY NAME
Address | Phone | Link | Email

Are Rising Interest Rates a Bad Thing for Stocks?

Description

When any central bank raises interest rates, it’s generally considered a good omen for the economy.

It means that consumers are willing to spend more due to their confidence in the economy and the job market. Central banks, which mostly target inflation, raise interest rates to keep inflation under control.

That’s what Bank of Canada did this week when it unexpectedly raised its benchmark interest rates to 1% following a strong GDP growth report.

But what about stocks? How do they get impacted by rising interest rates?

In general, rising interest rates are bad for the equity market. With rising interest rates come rising equity costs and rising debt costs. Investors shift their funds to more secure places, such as government bonds.

According to a **Goldman Sachs** study, a rise in U.S. bond yields above 2.75% would create a more serious problem for equity markets. A 3% rate, for example, would spell a 10% correction on the S&P.

That’s the reason the Bank of Canada’s interest rate hikes are making investors nervous, and these worries have kept our benchmark index, **S&P/TSX Composite Index**, lagging all but one of its developed-market peers this year.

Debt-heavy heavy utilities, commodity companies, and real estate investment trusts have underperformed this year, despite all the good news associated with an economy on fire.

What’s next?

I think the Bank of Canada won’t move too aggressively to raise rates at a time when inflation remains subdued and when the risks of a quick tightening are high.

After its two hikes in the past two months, the central bank will pause to see how the debt-heavy consumers and the country's hot housing markets are responding.

For Canadian stock investors, I think this pullback in some great dividend-paying stocks is a good buying opportunity, but you have to be selective.

As investors take shelter in safe-haven and fixed-income securities, you can focus on some big names to buy them cheap.

I particularly like **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), and **RioCan Real Estate Investment Trust** (TSX:REI.UN).

These three stocks are offering good bargains with their solid business models and revenue-generating capabilities.

These names also fit well in your dividend income portfolios, as they have good track records of increasing payouts to reward their investors.

After recent declines in their share prices, dividend yields at both CIBC and Enbridge are touching 5%. This is still quite an attractive return when compared to 1.91% bond yield on Canada's 10-year note.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:ENB (Enbridge Inc.)
5. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date
2025/07/05
Date Created
2017/09/06
Author
hanwar