2 Financial Stocks to Buy Now as Interest Rates Rise

Description

With the Bank of Canada's benchmark interest rate now at 1%, a full 50 basis points above levels at the beginning of the summer, investors are left to seriously consider, once again, the ramifications of higher-than-expected interest rates in 2018.

In fact, central bank governor Stephen Poloz did not rule out another hike in 2017 as the Canadian economy continues to expand at a feverish pace (4.5% in the second quarter).

Here are two stocks that investors should add in response to this interest rate environment.

With $1.2 billion in total assets, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is currently Canada's biggest bank, with the most assets and the second-most deposits.

As interest rates rise, the spread between the rate the banks pay customers and the rate that the bank receives widens, bringing more profit to the bank's bottom line, leaving it well positioned to reap the rewards of the rising interest rate environment.

In any case, and something that makes TD even more attractive, is the fact that management is expecting to significantly increase earnings, even without a rate increase, by continuing to implement productivity initiatives and by growing and deepening customer relationships.

In the third quarter of 2017, the bank reported an 18% increase in EPS as its credit quality has continued to improve from already strong levels. The gross impaired loans ratio, defined by gross impaired loans as a percentage of gross loans and acceptances, declined further to 49 basis points, and the provision for credit losses declined further to 33 basis points.

Since 1995, the bank's dividend has grown at an annualized rate of 11%, and the current dividend yield is an attractive 3.6%.

Life and health insurance companies also stand to benefit from a rising interest rate environment, as rising interest rates mean that the cash flows generated by the company's assets will be invested at higher yields, falling to the bottom line.

With a primary focus on the Canadian market, **Industrial Alliance Insurance and Financial Services** (TSX:IAG) stands to gain the most of its peer group from rising interest rates. The company has disclosed that a 10-basis-point increase in interest rates will impact net income by $23 million.

Industrial Alliance currently has a dividend yield of 2.62%, and I believe that recent stock price weakness has presented us with a buying opportunity.

In closing, I believe that the trade on higher interest rates has only begun; as we see increases in these companies' profits due to rising rates, the shares will rally in response and the dividends will likely be increased.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:IAG (iA Financial Corporation Inc.)
3. TSX:TD (The Toronto-Dominion Bank)

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