These Stocks Could Be Big Gainers as Interest Rates Rise

Description

Canadian markets had a predictably uneasy reaction to the second interest rate hike announced by the Bank of Canada on September 6. The S&P/TSX Index responded by falling below the 15,000 mark as the week wrapped up on September 8. The following week yielded a more positive reaction from the market, as the TSX moved up 1.25% on the week ending September 15.

Odds makers and analysts are torn on whether or not a third and final rate hike is looming for October, but the consensus seems to be a coin flip. In any case, as the economy continues to show strength, the Bank of Canada is sure to continue this period of tightening into 2018. Let's look at some stocks that could benefit in your portfolio during this time.

Mining companies are attractive plays in a tightening cycle

Hudbay Minerals Inc. (TSX:HBM)(NYSE:HBM) is a Toronto-based mining company with operations in Manitoba, Yukon, and Peru and mainly produces copper and zinc. The company has benefited from the bull market in copper in 2017 — a commodity that has performed historically well during previous tightening periods. The stock has increased 19.2% in 2017 as of September 15 and 85% year over year. Shares have dipped 18% since a September 8 announcement for a $242 million bought deal financing. If copper continues to follow its historical trend during tightening periods, this could be an attractive dip to buy into.

Barrick Gold Corp (TSX:ABX)(NYSE:ABX) has fallen 1.9% in 2017 and 7.9% year over year mostly due to the plunge in the yellow metal that took place in the latter half of 2016 and dipped into this year. Gold has performed well relative to U.S. dollar weakness and due to intensifying geopolitical turmoil. Pre-2008, precious metals have actually been solid performers during periods of rising rates. Barrick saw revenues rise 7.5% in its second-quarter results and earnings growth of 65%.

Canadian banks are a good bet after a weak spring and summer

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock is up 3% in 2017, but after reaching an all-time high in February, it experienced a decline and a flat performance since the first rate hike. The bank released its third-quarter results on August 29 which showed net income of $2.1 billion, representing a

7% increase from Q3 2016. It hiked its quarterly dividend to $0.79 per share, representing a dividend yield of 4.1%. Rising interest rates should help net margins, as banks have been lending at historically low interest rates since the Financial Crisis.

Shares of **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have experienced growth of 1.2% in 2017, seeing a similar slide since late February and early March. The bank released its third-quarter results on August 23 and posted after-tax net income growth of 5% and hiked its dividend by 5%. The stock now boasts a dividend of $0.91 per share, representing a yield of 4%.

Although financial institutions will likely see slower sales growth, with declines in housing and new mortgage regulations forthcoming, improvements in margins should make up ground in profits for major Canadian banks.

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3. NYSE:HBM (Hudbay Minerals Inc.)
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Author
aocallaghan