

## 3 Stocks to Own as Interest Rates Rise

### Description

With the much stronger than anticipated manufacturing sales number that was recently released, we can be confident in the opinion that another rate hike will come before the end of the year, as the Bank of Canada is surely more comfortable with the ability of the economy to handle it.

Given this, here are a few stocks that investors should own in a rising interest rate environment.

Life insurers have much to gain from rising interest rates, as this means that cash flows will be invested at higher yields, and so the reinvestment risk turns positive.

In the second quarter of 2017, **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) reported strong results, with earnings per share rising more than 40% versus the same quarter last year to \$0.57.

Growth in Asia is strong, and coupled with rising interest rates, this should drive the stock's valuation higher.

According to Manulife, a 50-basis-point increase in interest rates would have a \$100 million impact on net income and have a meaningful effect on its minimum continuing capital and surplus requirement ratio.

The company has raised its dividend three times in the last four years, with the latest being an 11% (\$0.02 per share) increase in the fourth quarter of 2016.

Similarly, **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)) reported better than expected second-quarter results. EPS of \$1.12 was 25% higher than the second quarter last year.

The company announced that it will be repurchasing shares (up to 11.5 million), and the dividend was increased again to \$0.44 per share. Both of these actions demonstrate management's confidence in the business, which is a good sign.

A 50-basis-point increase in interest rates would increase net earnings by \$50 million.

Second-quarter 2017 results were better than expected over at **Great West Lifeco Inc.** ([TSX:GWO](#)) as well. This follows a weaker than expected result in the first quarter and a strong fourth quarter, when management increased its quarterly dividend for the first time since 2015 by 6%.

Sensitivity to interest rates is lower than the other insurers, as according to management, a 100-basis-point increase in rate would have a \$145 million positive impact on net income.

At 13.1%, Great West has an ROE that is at the top of its peer group, and its dividend yield is currently 4.05%.

In summary, life insurance companies are poised to continue to be winners in this environment of rising interest rates. These companies are already benefitting from this dynamic, but it is not too late for

investors to get into these names and see their portfolios benefit as well.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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