



What Does the U.S. Fed Interest Rate Hike Mean for Canadian Investors?

Description

Given that the Fed's Janet Yellen has increased the key interest rate by a quarter of a percent, the fourth increase in a year, is it time for investors to seriously position their portfolios for more interest rate hikes?

The tone appears to be more confident, with the possibility of at least two more rate increases next year looking increasingly likely as the U.S. economy continues to perform well.

So what does this mean for Canada?

As U.S. interest rates rise, the U.S. dollar will strengthen. As a result, Bank of Canada will have another [strong reason to raise rates](#) sooner rather than later.

The Canadian economy is intricately linked to that of the U.S. economy. While a weakening of the Canadian dollar relative to the U.S. dollar is bullish for exports, Canadian interest rates tend to follow American rates. With a low unemployment rate of 5.9% in Canada, the environment is good.

Here are two stocks that will benefit greatly as interest rates rise.

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.

Since 1995, the bank's dividend has grown at an annualized rate of 11%, and the current dividend yield is an attractive 3.32%.

[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 down to the bottom line.

With a primary focus on the Canadian market, **Industrial Alliance Insurance and Financial Services Inc.** ([TSX:IAG](#)) stands to gain the most from rising interest rates among its peer group. The company has disclosed that a 10 basis point increase in interest rates will impact net income by \$15 million.

While the company is mainly a domestic operator, which has a slower growth profile than some of the international locations such as Asia, the insurance business grew 15% in the quarter, and the recent acquisition of HollisWealth should help drive growth going forward.

In my view, the stock trades at a multiple that reflects this. It has a P/E multiple of 12 compared to the peer group, which trades at multiples of 14+ times.

Industrial Alliance currently has a dividend yield of 2.54%.

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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Date

2025/07/21

Date Created

2017/12/16

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