Invest in Toronto-Dominion Bank as Soaring Job Numbers Mean Higher Rates Sooner

Description

The strength in job numbers reported last week will give the Bank of Canada a green light to go ahead and continue to raise interest rates sooner rather than later. This latest report raises the question of whether the economy is heating up too quickly, which raises the risk for inflationary pressures.

So, while the jobs report is very positive and leads to the conclusion that the economy is in very good shape and poised to outperform in 2018, it also means that the Bank of Canada will likely put its foot on the gas pedal and speed up its planned interest rate increases. Given that rates are still at historical lows, this is not necessarily a bad thing, at least for the short term.

And it is certainly a good thing for Canadian financial companies and their investors, as higher rates will benefit their bottom lines.

Life insurer **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) stands to benefit from higher interest rates in 2018.

Although the stock has performed well this year, Manulife currently still trades at attractive multiples given the improved environment expected in 2018 and its growth profile.

The company is currently seeing strong growth in Asia, where earnings increased 16% on a constant-currency basis in the third quarter, and it's had solid performance in its wealth management segment, where the Standard Life and the New York retirement plan acquisitions will help to boost its position and growth going forward.

On the cost side, Manulife has embarked on making improvements to its operational efficiency. To this end, Manulife has achieved $500 million of pre-tax annualized cost savings in 2016, and we should expect more to come as this remains a focus for the company.

Its return on equity (ROE) is on the rise, with ROE coming in at 11.7% in the third quarter compared to 10% in 2016. Of the life insurers, Manulife is making the biggest improvements to its ROE, and it remains the least expensive.

With six dividend increases since 2015, **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) has been beating expectations as of late, as its asset management business and its U.S. business have shown signs of improvement.

A 50-basis-point increase in interest rates would translate into more than $50 million in net income for the company.

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 3.2%.

In summary, financial 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. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/04
Date Created
2018/01/09
Author
karenjennifer