These 2 Dividend Stocks Could Soar as Canadian Interest Rates Rise

Description

Economists are now almost certain that Bank of Canada is going to raise interest rates later this month. This consensus has emerged after the latest economic data showed that the economy was firing on all cylinders as we entered 2018.

Canada's economy produced the strongest gross domestic product growth in six years in 2017, while the unemployment rate fell to its lowest level in four decades. According to economists at Canada's major banks, this robust economic data gave Bank of Canada more than enough justification to raise interest rates by another quarter of a percentage point to 1.25% when policy makers meet on January 17. In 2017, the bank hiked the policy rate twice when it moved from the sidelines this summer.

The likelihood of a rate hike this month jumped to more than 85% after the central bank released a report showing that Canadian companies remain optimistic about future sales, as signs of capacity pressures and labour shortages have picked up.

Betting on interest rates

For investors who want to benefit from Canada's strong economy and rising interest rates, some dividend stocks offer a good opportunity. My top picks to trade on higher interest rates are Canada's top banks and insurances companies.

Here's why:

When interest rates rise, so do the bond yields as fixed-income investors seek more returns to hedge against inflation.

Insurance companies invest a significant amount of their cash reserves in fixed-income securities, like bonds, to cover potential liabilities. Rising bond yields improve their returns, and the extra cash improves their earnings.

The yield on Canada's 10-year government bond, for example, has jumped to more than 2% during recent trading sessions on speculations that interest rates will rise this year.

For banks, rising interest rates help boost their margins, as they charge more on loans, mortgages, and credit lines.

To take advantage of rising rates, I recommend **Sun Life Financial Inc**. (TSX:SLF)(NYSE:SLF) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stocks as both are the safest bets in the financial space.

These two financial stocks have outperformed the **S&P/TSX Composite Index** ever since Bank of Canada reversed its monetary course. During the past six months, Sun Life stock has gained ~10%, while TD Bank surged more than 14%.

For income investors, investing in these two top financial stocks also means earning decent dividend yields. TD Bank offers an annual yield of 3.14%, while Sun Life's 3.36% is a little more attractive.

The bottom line

There is a good chance that Bank of Canada will continue with its monetary tightening drive in 2018. If that happens, then some investors may want to realign their portfolios and add some extra exposure to the stocks that are best positioned to produce higher returns in this environment. Sun Life and TD Bank are the two names that likely won't disappoint you.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:SLF (Sun Life Financial Inc.)
3. 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
2025/08/26
Date Created
2018/01/09
Author
hanwar