



## What a Rate Hike Tells Investors

### Description

Believe it or not, all of Canada's big banks agree that this week there will be an interest rate hike by the Bank of Canada, which will make it costlier for both consumers and businesses to borrow money. The benefit of having everyone agree is that it provides a higher level of confidence to investors seeking direction. The challenge this presents, however, is that unanimity is not always correct.

Several years ago, when the economy seemed to be on solid footing in spite of declining oil prices, there was a similar agreement among Canada's financial institutions, only to see interest rates move the other way. At the time, the explanation was that by cutting rates, the currency would weaken in an effort to make up the shortcoming of oil exports. The Bank of Canada surprised everyone, and with hindsight, we can say that it was correct in its decision. The economy has performed fantastically well since that time.

This time, however, things may be different. With two rate hikes in the books for 2017, the surprise would be if no rate hike were announced this week. When the interest rates are increased, it signals that the overall economy is expanding at a pace that is in excess of the long-term average and cannot be sustained over the long term — hence, the market needs to be cooled off. The opposite is also true. When interest rates are lowered, it signals that there is a shortfall in economic activity, and fuel needs to be added to a fire that is weakening.

For investors looking to benefit from this rate hike (which is the best option at this stage of the game), the best way to do so may be to invest in companies that have the opportunity to make a greater profit from higher interest rates. For the low-risk investor, any major Canadian bank will do the trick, as most deposits pay a fixed rate of interest (through guaranteed investment certificates), while variable rate mortgages have a rate that can be increased as rates go up.

Shares of **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) are among the most [attractively priced](#).

For investors seeking a much more aggressive play, shares of alternative lender **Home Capital Group Inc.** ([TSX:HCG](#)) continue to offer substantial value at a price of less than \$16 per share. As the [company](#)

carries tangible book value in excess of \$22 per share, investors can look forward to both higher revenues and a higher share price from the ongoing operations alone. Barring that, the gap between the share price and tangible book value has the opportunity to close and deliver value to investors.

With a lot of upside in the financial sector, the best possible outcome for investors may just be a rate increase — it will be confirmation that the economy is performing at an above-average pace.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:HCG (Home Capital Group)

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