Canadians' Debt Burden Continues to Increase: Is it Time to Get Defensive?

Description

As interest rates continue to rise in 2018, we can be highly convinced of one thing: Canadians will be feeling the pinch as debt levels continue to be high, and managing this will continue to get increasingly harder.

Coming out of a period of low interest rates and unprecedented levels of borrowing, rising interest rates will be a hit for consumers. And although rates will still be historically low at the end of 2018, the tide is slowly changing.

With expectations calling for three interest rate hikes this year, bringing the interest rate from the current 1% to 1.75% by the end of 2018, this will drive up interest costs and lower disposable income.

For an example of the effect of this on the consumer, let's assume that we have a $300,000 mortgage that we financed last year at 3%. That would require a monthly payment of $1,419. After the rate hikes, this mortgage would be financed at 4%, increasing the monthly payment to $1,578 — a full $159 a month higher.

Now, this may not seem like a lot, but if we add this to the increased payments on consumers' other debts, and if we remember that many Canadians are living on a tight budget, it starts to add up quickly.

Here are three defensive stocks that should thrive in this environment.

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 3.27%.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) has a current dividend yield of

4.11%, which investors can feel reassured by and have confidence in by looking at the company's history of dividend increases. Management's plan, which is targeting 5-9% annual growth in distributions and long-term ROEs of 12-15%, seems highly reliable.

The company's assets are long-life assets that provide essential services. Assets include regulated utilities terminals, energy transmission and distribution, railroads, toll roads, as well as in newer, faster-growing industries, such as communications infrastructure and water infrastructure.

These assets bring predictable cash flows and have long-term contracts.

Since 2009, Brookfield has grown its funds from operations by a cumulative average annual growth rate (CAGR) of 24% and it's per-unit distribution by a CAGR of 12%.

With a dividend yield of 5.39%, and a stable and reliable history, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is a utility for investors who are looking for stability, reliability, capital preservation, and income.

Since 1996, investors have enjoyed 22 years of dividend increases, with a 33% dividend increase in 2015, a 14% increase in 2016, and a 15% increase expected in 2017. And management expects the dividend to increase at a 10-12% cumulative average growth rate from 2017 to 2024.

In summary, with rising interest rates and a weaker consumer in 2018, investors can redirect a portion of their portfolios towards companies that will either benefit from rising interest rates or at least be relatively immune to it, thereby taking more defensive approach.

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2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:ENB (Enbridge Inc.)
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Author
karenjennifer