What to Short as Interest Rates Continue to Increase

Description

As interest rates continue to follow a clear path upwards, the long-term trend is very clear. This brings the potential for investors to make larger profits from sectors such as insurance and financials. The problem, however, is that there are going to be other sectors that are hindered by these higher borrowing costs.

One of the best-known companies that has currently faced a number of headwinds is none other than **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). The company, which is responsible for the Tim Hortons franchise, is in prime position to move lower as interest rates increase.

Although many investors believe the reason is due to higher interest costs, this is not correct. The company will see revenues decline amid higher interest rates due to the fact that consumers will have fewer dollars to spend on their daily coffees. As many customers currently enter the restaurants more than once a day, the effect of both higher interest rates and higher oil prices will be very negative for the company.

As consumers pay a little more for mortgage payments and for every fill-up at the gas pump, there is going to be less disposable income for companies such as Restaurant Brands to profit from. To make matters worse, the company is currently trading in excess of 15 times this year's projected cash flows from operations, which is a very expensive multiple.

The next vulnerable company may be **Alimentation Couche-Tard Inc.** (TSX:ATD.B). At a current price of almost $65 per share, Couche-Tard trades at a rich valuation of 21.5 times trailing earnings, while paying a minuscule dividend of less than 0.5%.

In spite of a fantastic one-year and five-year track record, there may be more challenges moving forward than investors realize. With potentially lower disposable income, consumers will need to be more diligent when deciding where to spend their hard-earned dollars. As the sale of marijuana will become legal over the next year, there could be fewer packs of cigarettes purchased through convenience stores, which will translate to less foot traffic and probably a decline in overall sales.

Investors need to remember that investing is fluid: things change all the time.

For investors willing to embrace higher interest rates as a sign of economic prosperity, the good news is that there is a lot of money to be made in the right places. The downside, however, will be that there are always pockets of the economy that will suffer as the tide rises elsewhere. Always be diligent.

CATEGORY

1. Investing

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2. TSX:QSR (Restaurant Brands International Inc.)

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