



2 Stocks to Own as Interest Rates Continue to Rise

Description

The Bank of Canada just raised interest rates for the third time in less than a year, and many analysts see more increases on the way.

This might be bad news for people with variable-rate debt, but it is music to the ears of investors who own companies that should benefit from the rate hikes.

Let's take a look at **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) to see why they might be interesting picks right now.

Sun Life

Sun Life owns insurance and wealth management businesses primarily focused on Canada, the U.S., and Asia.

The North American operations generate the bulk of the company's income, and rising interest rates in the United States and Canada are going to have an impact on Sun Life's revenue.

How?

Insurance companies have to set aside a significant amount of cash to cover potential claims. This money is normally put in fixed-income products.

As interest rates rise, the return Sun Life can get on this money increases, and when you are looking at billions of dollars, a 1% increase in rates can have a meaningful impact.

In addition, rates generally go up when the economy is doing well, and that often goes hand in hand with strong [stock market](#) performances, as we are seeing right now.

When the markets are doing well, Sun Life's wealth management operations should benefit.

Royal Bank

Royal Bank has a large mortgage portfolio, and some investors might be concerned that borrowers could be forced to sell their homes if the payments rise too quickly.

There is certainly a risk that Royal Bank could see defaults increase, but the bank's overall mortgage book is very capable of riding out higher interest rates, and the potential downturn in house prices that could be on the way.

Rising interest rates tend to be a net benefit for the [banks](#), as they can generate better spreads on their loans, and earn higher returns on the money they are required to set aside to cover deposits.

Royal Bank also has a large insurance division.

Is one more attractive?

Both companies should derive benefits as interest rates rise. If you are concerned a housing meltdown could be in the cards, Sun Life might be the better bet, and you also pick up nice exposure to growth in Asian markets.

Otherwise, I would probably split a new investment between the two stocks.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:SLF (Sun Life Financial Inc.)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/22

Date Created

2018/01/18

Author

aswalker

default watermark

default watermark