Will Higher Rates Lead Canada Into a Recession?

Description

With a rate increase solidly in the books, Canadians will soon begin to feel the pinch of higher interest rates; many lines of credit charge interest on the first of the month, which will, in many cases, be an unpleasant development. The higher rates, which are meant to regulate economic growth and inflation, may finally be having the effect of slowing down the economy, as consumers who have taken on debt, both secured and unsecured, will have no other choice but to allocate a larger part of their budgets to repaying the money they have borrowed.

The challenges this brings for many investors is finding investing opportunities, as many consumer stocks will be weighed down by fewer dollars of disposable income. In turn, companies facing higher costs to service their borrowings could have fewer dollars available in their budgets to increase variable compensation and employee bonuses. Employees will have to work harder to take home the same amount of pay or potentially a little less.

In spite of the daunting tasks facing many investors, there are still a number of companies available for investment that will prosper though all phases of an economic cycle. In addition, many of these names have very little debt.

The first name for investors to consider is none other than **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB). At a current price of less than $70 per share, CGI Group has done a fantastic job of returning capital to shareholders through share buybacks. In spite of having a substantial amount of “sticky” business, the company does not pay a dividend.

CGI Group is a technology support company, the potential detriment that a recession could bring may only be very minor. Although upgrades may be pushed back, the reality is that things break down, and technology improves. The inevitable outcome is that shareholders will reap the rewards.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has more than US$25 billion of debt and will have no other choice but to refinance it at a higher cost as it comes due. In the drug-manufacturing business, the company faces unique challenges of having a massive amount of debt, while many of the drugs that drive revenues become closer to falling off patent with every passing day. Investors may want to steer clear of this name.

With so many fantastic options available that have minimal debt and/or are viewed as essential services, the reality is that investors don't need to hold any high-risk names to make major profits. Profits will come to those who invest wisely and remain patient.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:BHC (Bausch Health Companies Inc.)
4. TSX:GIB.A (CGI)

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