4 Stocks to Buy or Sell as Interest Rates Rise

Description

The Bank of Canada elected to raise the benchmark interest rate by 0.25% on January 17. Since then, the S&P/TSX Index has shed over 400 points, and a number of key sectors have been battered. The Canadian stock market will be looking to climb out of the red in February after a rough January.

Investors chasing dividends may have to great creative as bond yields rise. Let's take a look at four stocks to buy or sell during this turbulent period.

Sell: Fortis Inc.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is an electric and gas utility holding company based in St. John's. Fortis stock has dropped 7.4% in 2018 as of close on February 1. Utility stocks have been particularly vulnerable to start the year. With rising interest rates, the allure of utilities stocks typically wanes as other income-yielding investment vehicles become more attractive.

Tightening credit conditions are also a bad sign for companies that rely on financing large projects for expansion. In the case of Fortis, the stock offers a dividend of $0.43 per share with a 3.9% dividend yield. As a straight income play, Fortis is still attractive, but the stock will continue to struggle in a tightening rate environment, assuming more hikes are on the way in 2018.

Buy: National Bank of Canada

National Bank of Canada (TSX:NA) is a Montreal-based bank, the sixth-largest in Canada. National Bank stock has climbed 1.6% in 2018 thus far. Although utilities and telecom stocks have been battered in a rising-rate environment, dividend-yielding bank stocks are proving resilient.

Rising rates typically translate to improving economic conditions, which leads to higher investment and better performance for capital markets divisions. In 2017 National Bank set the goal to become a top three investment bank in Canada. It last offered a solid quarterly dividend of $0.60 per share with a 3.7% dividend yield.

Sell: Canadian REIT

Canadian REIT (TSX:REF.UN) is a Toronto-based real estate investment trust (REIT) that operates retail, industrial, and office properties. Shares of Canadian REIT have fallen 4.2% in 2018 so far. Real estate stocks, including REITs and alternative lenders, have not responded well to the promise of rising interest rates. New OSFI mortgage rules have also put increased pressure on the residential real estate market.

Canadian REIT still offers an attractive dividend of $0.16 per share, representing a 4.2% dividend yield. However, the real estate industry is expected to go through a significant degree of turbulence in the first half of 2018 and perhaps beyond.

Buy: Sun Life Financial Inc.

Sun Life Financial Inc. (TSX:SLF)(NYSE:SLF) is a Toronto-based financial services and insurance company. Sun Life stock has climbed 3.1% in 2018. Sun Life stands to benefit from improving domestic and global growth in its investment financial services business. The company will also benefit from rising bond yields. Sun Life last announced a dividend of $0.46 per share, representing a 3.4% dividend yield.

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