Only 1 More Rate Hike in 2018? These Stocks Could Benefit From a Dovish Bank of Canada

Description

On March 7, the Bank of Canada elected to hold its benchmark interest rate at 1.25%. The central bank cited concerns over trade that could impact domestic and global markets. In response, the Canadian dollar briefly dipped below the $0.77 mark before bouncing back on news that the U.S. could exempt Canada and Mexico from steel and aluminum tariffs that it will impose.

BlackRock, Inc., the largest asset manager in the world, recently predicted that the Bank of Canada would take an unexpectedly dovish turn in 2018. Aubrey Basdeo, head of Canadian fixed income at BlackRock, predicted that the Bank of Canada would move to hike the rate only once more in 2018 and could potentially stand pat altogether. This would likely put downward pressure on the Canadian dollar going forward, but a more dovish central bank may be good news for some stocks.

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) is a Toronto-based telecommunications company and the largest wireless carrier in Canada. Rogers stock has plunged 8% in 2018 as of close on March 7. Telecom stocks have suffered, as rising bond yields are hurting investor sentiment in what have emerged as highly attractive income generators in the post-recession low interest rate environment.

A dovish Bank of Canada could drive more investors to the telecom sector in search of income. In the fourth quarter, Rogers declared a quarterly dividend of $0.48 per share, representing a 3.2% dividend yield. The company posted strong full-year results, as adjusted net income rose 23% to $1.82 billion. This was powered by strong wireless revenue performance, which is expected to continue in 2018.

Hydro One Ltd. (TSX:H) is a Toronto-based utility that services the province of Ontario. Shares of Hydro One have plunged 7.2% in 2018 thus far. Utilities stocks have also been battered due to rising interest rates and bond yields. Hydro One released its 2017 fourth-quarter and full-year results on February 13.

The company posted adjusted earnings per share of $0.29 compared to $0.22 in 2016. Revenues slid to $5.99 billion from $6.55 billion, and adjusted net income fell to $694 million compared to $721 million in the prior year. Hydro One declared a quarterly dividend of $0.22 per share, representing a 4.2% dividend yield.

Royal Bank of Canada (TSX:RY)(NYSE:RY) and other Canadian banks performed well in the first-quarter earnings season. Royal Bank stock has dropped 2% in 2018 so far. In spite of rising rates and new OSFI mortgage rules, Royal Bank's mortgage portfolio experienced 6% growth to $238.5 billion. A dovish central bank would come as some much-needed good news for lenders, as the Canadian housing market has sputtered to start 2018.

Solid domestic and global growth should also power Royal Bank going forward, regardless of the direction of interest rates. U.S. tax reform should also give the bank a boost, as it possesses a sizable footprint south of the border. Royal Bank also hiked its quarterly dividend 3% to $0.94 per share, representing a 3.7% dividend yield.

CATEGORY

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