TFSA Income Investors: Here's How You Can Beat the Market as Interest Rates Continue to Rise

Description

As expected, newly appointed Fed chair Jerome Powell made his first quarter-point interest rate hike this week, hinting at another two that could be in the cards for later in the year. It appears that Powell has a more hawkish tone than his predecessor Janet Yellen, and with rates expected to rise ~0.75% per year, conservative investors may wish to subtly readjust their portfolios to better withstand and thrive in a rapidly rising interest rate environment.

It's not a mystery that higher rates are bad for many of our favourite high-yielding asset classes, like REITs, telecoms, and utilities, all of which play essential roles in a safe investors' portfolio. As rates rise, it may seem like a smart idea to reduce your exposure to such securities; however, a better strategy would be to stay the course and supplement your REITs, telecoms, and utilities with rate-sensitive financial stocks that will benefit from higher rates.

The income and safety offered by REITs, telecoms and utilities are nearly irreplaceable, and you shouldn't make a rash decision, such as dumping everything in the sector just because interest rates will act as a headwind. If you rely on the income, you'll still receive it, and it'll be business as usual in spite of the harsher environment. The only difference is, you're likely to see an elevated level of volatility, which is manageable if you're disciplined enough gear up for the rockier road ahead.

Without further ado, here are two of today's most timely financial stocks that can protect your portfolio in times of rising rates.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

The big banks are poised to benefit from rising rates, and in terms of value, I believe CIBC offers the most value of all Big Six banks at this point in time. The company trades at a mere 10.8 times trailing earnings, and it still seems that the general public treats CIBC as the riskier and non-geographically diversified bank, despite its successful U.S. expansion.

Investors are still turned off by CIBC's mortgage growth, and as a result, the general public appears to be ignoring the potential behind PrivateBancorp, which was a larger-than-expected contributor to CIBC's Q1 2018 earnings results.

With CIBC, you're getting a solid bank riding the tailwind of rising rates at what I believe is a tremendous discount to its intrinsic value. Opportunistic investors can collect the dividend, which currently yields 4.51%, as they make subtle adjustments to their conservative income portfolios.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC)

When it comes to rising-rate environments, life insurance companies are stocks you'll want to have for superior total returns over the long run. Manulife's Asian business is delivering supercharged growth with 7% in year-over-year growth in Asia-based insurance sales for the most recent quarter (Q4 2017).

The company has a compelling Asian growth runway, but the legacy business continues to be a major drag on ROE. At this point, a sale of the business appears to be out of the question, even though investors have been pushing for one. With rates rising, however, Manulife appears poised to outperform, as management continues to take advantage of Asian opportunities while investing in efficiency-driving initiatives.

Shares of Manulife are down over 10% from 52-week highs and now offer investors with a juicy dividend, which currently yields 3.6% and is a great supplement to any income portfolio as rates continue to surge.

Bottom line

When it comes to rising rates, you don't need to settle for dampened total returns moving forward. And you also don't need to make moves such that your portfolio's yield is reduced. Both CIBC and Manulife are undervalued stocks that will fare well as rates rise, and they both offer solid yields that shouldn't drastically reduce your overall portfolio's yield.

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