Bank of Canada Holds Off on Rate Hike: Good News for These 3 Stocks?

Description

On April 18, the Bank of Canada elected to hold the benchmark interest rate at 1.25%, but it reiterated that further tightening was on the way. There were strong cases ahead of the meeting, including a positive jobs report and higher-than-expected inflation, but the central bank cited the slowdown in January GDP and concerns over housing, trade, and investment as reasons to pause.

Economists are projecting one to two more rate hikes for the remainder of the year. A quarterly MNP consumer debt survey revealed that 43% of respondents said that they were feeling the effects of recent interest rate hikes. One-third of those who responded to the survey said that rising interest rates could push them to bankruptcy. Almost 50% of those surveyed said they will need to go into further debt to cover basic living expenses.

This comes in the wake of warnings from a number of international bodies, including the OECD, about the possibility that Canadian debt could heighten Canada's vulnerability in the event of financial turbulence. Let's look at three stocks that could be impacted by interest rate policy and rising Canadian debt going forward.

Equitable Group Inc. (TSX:EQB)

Equitable Group is a Toronto-based alternative lender. Shares of Equitable Group are down 22% in 2018 thus far, but the stock has climbed 1.7% week over week. Weakness in the Canadian housing market has generated skepticism over the potential of lenders, as investors await first-quarter results from Equitable Group.

The company posted record numbers in 2017 as net income rose 16% to $160.6 million and mortgages under management hit a record $23.2 billion. Equitable Group warned that new OSFI mortgage rules would slow loan growth this year. Rising interest rates will be even more pressure on a stressed housing market, which is likely bad news for Equitable Group.

Laurentian Bank of Canada (TSX:LB)

Laurentian Bank stock has dropped 14.5% in 2018, but shares have climbed 2% week over week as of close on April 19. The Quebec-based regional bank has been hit with a controversy over mortgage underwriting. In its first-quarter results, the bank announced the client that bought the mortgages in question was CMHC, and it will not request repurchases. The investigation is likely to conclude by the end of the second quarter.

The bank may be an enticing buy-low candidate considering its solid first-quarter results. The Quebec housing market has not suffered from the rampant overvaluation seen in major Ontario and B.C. markets. Adjusted net income rose 20% year over year, and loans to business customers climbed 22% from Q1 2017. It also offers an attractive 5.1% dividend yield.

Goeasy Ltd. (TSX:GSY)

Goeasy stock rose 2.29% on April 19. Shares are down only 0.4% in 2018 so far. This alternative financial services company may benefit from tightening credit conditions, as it lures customers on the hunt for more lenient financing. It offers merchandise leasing of household furnishings and home electronics to customers, as well as unsecured installment loans. It posted record originations and loan book growth in 2017.

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