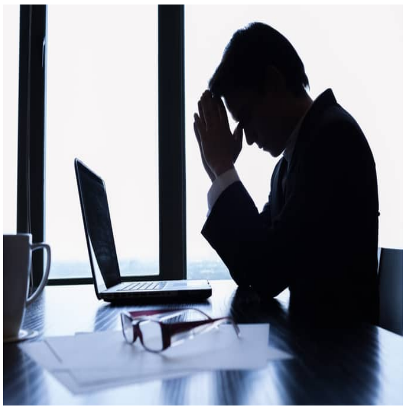

# 2 Financial Stocks to Fight Back Against Rising Interest Rates

## Description

When it comes to a rising interest rate environment, many investors may be unfamiliar with what to expect over the longer-term. Interest rates have remained at rock-bottom levels for a ridiculously long time now, so for many investors, an era of higher rates is akin to venturing into unchartered waters. It can be fairly daunting, especially if we're not sure what the implications of higher rates are for our longer-term investment goals.



You're probably aware that higher rates are bad news for capex intensive companies with higher dividend payouts. Sadly for retirees, these are exactly the types of stocks that are best suited to meet their investment goals. REITs, telecoms, and utilities offer conservative investors a high degree of safety, dependability, and above-average yields.

Luckily, they'll continue to exhibit such retiree-valued traits in a more challenging high-rate environment, so higher rates are really nothing to be afraid of, as you'll still get that monthly payment as usual, which won't be at a higher risk of a rate cut!

For those who are concerned about stunted growth due to higher rates, however, scooping up high-quality financial stocks can serve to offset the potential negative impact it may have on the high-yielding capex intensive securities that you probably don't want to dispose of, as they still fit your long-term investment needs; you don't want external factors to change your goals or your strategy.

**Fairfax Financial Holdings Ltd.** (TSX:FFH) and **National Bank of Canada** (TSX:NA) are two financial firms that are poised to treat interest rates as a positive and not as an insidious headwind, as may be the case for other firms.

**Fairfax Financial**

As you're probably aware, Prem Watsa, the CEO of Fairfax Financial who is also referred to as the Canadian Warren Buffett, is an influential Canadian investor who's turned bullish following Trump's presidential victory after many years of being known primarily as a doomsday investor with his many hedges and short positions.

There's no question that Watsa's sudden change in stance has helped Fairfax stock bounce back, albeit only slightly. But what investors may not know is that Watsa still implements a "preservation of capital" approach in preparation for whatever unexpected negative force presents itself.

Fairfax Financial owns an interest in many firms, but it's primarily known as a provider of insurance and reinsurance products. In a rising interest rate environment, insurance operations will provide a strong tailwind; if you've got shares in your portfolio, you can potentially offset some of the negative impact from your other high-payout holdings that are vulnerable to higher rates.

**National Bank of Canada**

National Bank of Canada is the sixth-largest Canadian bank and is substantially less geographically diversified than its bigger counterparts are. As a regional bank with over 60% of revenues coming from Quebec, one would assume that the stock is worthy of shunning, as it's more vulnerable to a single point of failure.

Management has taken steps to address the lack of geographic diversification by moving into the foreign emerging markets like Cambodia and Mongolia, as well as advanced foreign economic markets like the U.S. However, such expansion efforts are still in their infancy when compared with that of their larger peers in the banking space.



As a result, the stock currently trades at a modest 10.4 times forward earnings with a 3.91% yield at the time of writing. The stock looks like a fair value at these levels, and when you consider the many years' worth of dividend hikes, I believe the bank deserves as much respect as the Big Five incumbents.

**Bottom line**

Fairfax and National Bank of Canada are two stocks that are trading at reasonable multiples today. If you're looking to turn the negative effects of rising rates on its head, you may want to consider adding one or both names to your portfolio today, especially if you're overexposed to rate-vulnerable securities and lack a hedge.

If you value downside protection, then Fairfax is the better bet. And if you value a higher yield and a consistent frequency and magnitude of dividend hikes, then National Bank is ripe for the picking!

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