



## Here's Why Manulife Financial Corp. Stock Is a Strong Buy As Interest Rates Rise

### Description

With [interest rates](#) rising, **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) stock is in a sweet spot.

However, at the latest meeting, the Bank of Canada opted to keep the benchmark interest rate at 1.25%; this level represents a 75 basis point increase from 2017 levels, which is a big move.

Going forward, we can expect more interest rate increases, as the economy is strong and inflation is pushing onto the Bank's target level.

So, this leaves Manulife stock very nicely positioned to outperform.

Life insurance companies have assets that are primarily financial in nature and are primarily composed of stocks and bonds. Liabilities mostly consist of obligations related to the policies sold to various individuals.

These companies invest their revenues and cash flows and pay their obligations with the money from these investments. Life insurance companies have high reinvestment risk because of their high duration liabilities.

With declining interest rates, assets kept getting reinvested at lower and lower rates, which meant lower and lower profits. Rising interest rates mean that cash flows will be reinvested at higher yields, and so the reinvestment risk turns positive.

According to Manulife, a 50 basis point increase in interest rates would have a \$100 million impact on net income and a meaningful effect on its MCCR Ratio or its Minimum Continuing Capital and Surplus Requirement Ratio.

Manulife is seeing strong growth in wealth and asset management as well as its expansion in Asia.

In the first quarter of 2018, Manulife posted an 18% increase in core earnings and earnings per share of \$0.64. The company generated an ROE of 14.1%, above its targeted range and a solid improvement from prior levels.

These results are above expectations.

Core earnings in Asia increased a solid 19% as the insurer continues to be successful in ramping up the business in an area with a rapidly growing middle class.

The company's global wealth and asset management segment saw a 24% increase in core earnings and strong gross flow from all regions, with Asia up 35%, Canada up 33%, and the U.S. up 5%.

On the cost side, Manulife has embarked on making improvements to its operational efficiency. To this end, Manulife has achieved \$500 million of pre-tax annualized cost savings in 2016; we should expect more to come, as this remains a focus for the company.

Finally, Manulife stock is currently trading at a [dividend](#) yield of 3.75%. As well, the dividend has been growing. The dividend was increased four times in the last five years, with the latest one being a 7% increase in the fourth quarter of 2017.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
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