Toronto-Dominion Bank and Royal Bank of Canada to Benefit From Rising Interest Rates

Description

Although 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.

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

Consumers have felt the pinch already, largely due to mortgage rate increases, and will continue to feel it as their mortgages are renewed at higher rates. With lower disposable income, consumers will be spending less on their "wants" out of a necessity to ensure that they have enough money for their needs.

This, in turn, will affect retail stocks and certain auto stocks, as consumers hold on to their cars for longer periods of time, as well as any company/stock that benefits from consumer discretionary spending.

Back to interest rates.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a beneficiary of rising interest rates, and the stock has risen in the last few weeks as a reflection of this.

And while delinquencies may go up with rising rates, the bank will profit from a widening spread. A 25-basis-point increase in interest rates would increase the bank's net interest income by approximately $150 million.

With $1.2 billion in total assets, TD bank is currently Canada's biggest bank, with the most assets and the second-most deposits.

TD Bank stock has been a good place to turn to for dividends and dividend growth, and since 1995 the bank's dividend has grown at an annualized rate of 11%.

In the latest quarter, the first quarter of 2018, the bank increased its dividend by 12% to $0.67 per share, and the bank's efficiency ratio continued to impress, declining 290 basis points in the first quarter of 2018 to 53.2%, as all segments of the banks are showing good cost control.

TD Bank stock's dividend yield is currently at 3.65%.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is also set to benefit from rising interest rates and a widening spread, yet the stock has fallen almost 10% year to date.

The bank is also having a very strong start to the year and had a strong 2017, with a 3% dividend increase to $0.94 per share and a share buyback of nine million shares a testament to this strength.

Royal Bank stock has a current dividend yield of 3.8% and maintains its place as an attractive dividend stock.

Credit risk is elevated for the banks in general, with rising interest rates, and given Canadians' heavy debt load, but with strong capital ratios and the benefits that rising rates bring to the banks' bottom lines, investors needn't be worried about it too much.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/11
Date Created
2018/05/10
Author

karenjennifer