2 Canadian Stocks to Take Advantage of an Upcoming Bank of Canada Interest Rate Hike

Description

Interest rates are on the rise, and in Canada, this means key sectors from real estate to utilities and other cyclical bond-like securities are getting hammered across the board.

With the Bank of Canada seemingly set to raise interest rates again on July 11 (estimates have increased to around a 70% likelihood of such a hike taking place), let's assume for once that the experts are right and a hike is coming. What should you do?

I'm going to share two companies that should benefit from such an interest rate move and that I believe are currently undervalued in this environment.

CIBC

One of Canada's six largest banks, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has been a perennial under-valued firm in the eyes of the market. Always behind the eight ball in terms of valuation multiple and sector premium when compared to its peers **Toronto-Dominion Bank** or **Royal Bank of Canada**, CIBC has been the domestic Canadian option for quite some time now. With Canada's stock market and financials sector largely lagging behind global growth seen in other parts of the world, which have been taken advantage of to a much greater degree by CIBC's competitors, shares of this bank have rightfully lagged behind its peers.

That being said, with such a significant percentage of the bank's revenue remaining Canada-centric, this is one bank which is possibly in the best position to take advantage of an improving interest rate environment in Canada. I will keep my eye on how government bond rates continue to fluctuate in Canada; however, barring something out of the ordinary, I would expect to see CIBC's profit margin improve, as its lending spread follows a steepening of the yield curve in the coming quarters.

Shopify

Technology companies such as Canada-based **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) are typically much less affected by interest rate movements in part due to the fact that growth companies in the tech space are often very low utilizers of debt. In the case of Shopify, the company has managed to grow to a mega-giant through stock issuances alone — a tremendous feat for sure, and one which positions the company extremely well in a rising interest rate environment, as the company will have no debt to refinance in the upcoming quarters at higher rates.

Knowing the company has the ability to continue to find new capital via equity markets, given the company's rising stock price, betting on this company to outperform regardless of interest rate movements appears to be an excellent long-term strategy. While other factors may come into play with respect to Shopify's stock price in the future, don't expect interest rates to impact the company's stock price in any real fashion.

Stay Foolish, my friends.

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