Higher Interest Rates Have Created Huge Opportunities for Investors

Description

After a number of interest rate increases, many investors are now beginning to find opportunities in different places. Gone are the days when the risk-free rate of return paid was less than the rate of inflation, which pushed many retired, income-seeking investors away from the security of government bonds and into equities. In today's market, many investors have found yield and total returns in a number of other (non-conventional) places.

Contrary to the most widely accepted trade, the insurance industry has not performed as well over the past six months. Either due to the slowdown in business or due to the already generous valuations extended to many stocks in the industry, such as **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC), investors have been very disappointed. At a price of $23.50 per share, the nation's largest insurance company offers a dividend yield of less than 4%. It would seem that investors need more than that, as shares have declined for several months now. Clearly, yield remains important.

Where the opportunity lies today is in the form of dividends. Both the REIT sector and the banking sector have positioned themselves to deliver substantial profits to investors over the next year. The REIT sector has been under a lot of pressure, as rates have increased over the past year, which has sent shares to a lower level and made yields higher. In the case of Canada's big banks, dividend increases have followed the increase in bottom line profits, but not to the same extent. Instead, bigger share buybacks have been announced, and names such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) have never been more attractive.

After completing the acquisition of a U.S. wealth management firm, revenues have increased at a faster pace than expected, as U.S. equity markets have headed higher. Once the share buyback is undertaken and completed, there will be substantially fewer shares available for purchase, which will translate to higher dividends. Sometimes, when it rains, it pours, and investors love it!

The last opportunity for investors to benefit from higher rates comes in the oil and gold sectors. As these commodities typically trade through forward and futures options, the higher rates have made it costlier to tie up money in these investments. Essentially, this will have the effect of leading to less supply over the long run, as investors have comparable options that become more attractive. From the demand side, the cost for delivery of oil and gold in the future has increased as a result of these higher rates.

Investors need to be compensated in a greater way for tying up their money. This is referred to as contango in the commodities market, and it has been extremely beneficial to companies such as **Goldcorp Inc.** (TSX:G)(NYSE:GG), which has a lot of room to grow.

With so many incredible opportunities available to investors in this rising-rate environment, the best possible solution may just be a cooling of the economy. If rate increases are put on pause, certain assets classes, such as REITs, may perform far above expectations!

CATEGORY

1. Dividend Stocks
2. Investing

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