2 Stocks to Buy Ahead of a Potential Rate Hike

Description

In January, the Bank of Canada opted to raise the benchmark interest rate to 1.25% after the country posted impressive GDP growth in 2017. This decision was also supported by inflation numbers that met targets and solid job numbers. Canadian equities initially responded well to the decision before a global stock market rout that was triggered in late January and early February.

The Bank of Canada is set to hold its next decision on the benchmark rate on July 11. Odds are that the central bank will move to increase the rate to 1.50%. This is in spite of continuing anxiety over trade tensions and a housing market that remains shaky as valuations continue to soar in the metropolitan areas of Vancouver and Toronto.

In spite of these concerns, the data is strongly pointing to a move upward this week. Inflation has dipped in April and May, but remains within range for a rate hike. Canada added 31,800 jobs in June, while the unemployment rate rose to 6%. Wage growth also came in at 3.6%, down from the nine-year high posted in May of 3.9%. These numbers support a rate hike on Wednesday.

Today we'll look at two stocks that could be impacted by the impending rate decision. A rate hike in the summer of 2017 preceded a tremendous run for the TSX. Could it be the same for these stocks in the second half of 2018?

Genworth MI Canada Inc. (TSX:MIC)

Genworth has proven to be one of the most robust housing stocks even in a period of turmoil for the industry in Canada. The stock has been fairly static in 2018 – down 0.37% as of close on July 9 – but is up 19% year over year.

The company has been resilient amidst a housing correction and new regulations OSFI regulations that required uninsured borrowers to be subject to a stress test. Genworth, a private residential mortgage insurer, had already jumped this hurdle when insured buyers were required to pass a stress test in 2016.

Premiums written from transactional insurance rose 22% year-over-year in the first quarter of 2018.

This was bolstered by the higher premium rate as total premiums written fell 30% from Q1 2017. Higher rates will lead to tighter loan growth and companies like Genworth will seek to offset this and improve margins. The stock also offers an attractive quarterly dividend of $0.47 per share.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank stock has climbed 3.1% in 2018 as of close on July 9. Shares are up 16% year over year. TD Bank expects to see loan growth slow as tightening picks up, but higher interest rates should boost profit margins going forward. In its second-quarter results, TD Bank credited higher margins for boosting profit in its Canadian and U.S. retail banking by 17% and 16%, respectively.

TD Bank stock also offers a quarterly dividend of $0.67 per share, representing a 3.3% dividend yield.

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Date
2025/07/19
Date Created
2018/07/10
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