Toronto-Dominion Bank (TSX:TD): A Top Stock Amid Rising Interest Rates

Description

If you're a serious investor who is searching for ways to benefit from the various macro trends that are dominating the headlines, take a moment to consider positioning your portfolio for rising interest rates.

Interest rate swings have long influenced stock market moves, and this time is no different. The latest move, a 25 basis point rise in interest rates, brought the benchmark rate to 1.5%.

So without further ado, let's take a look at three of the beneficiaries of this rising interest rate environment, all of which provide investors with solid dividend income as well as a strong potential for capital gains.

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

TD Bank is nicely exposed to changes in interest rates. The stock has risen almost 20% in the last year, and shows no signs of stopping, with efficiency gains and higher interest rates driving strong results in the first half of 2018.

According to management, a 25 basis point increase in interest rates increases the bank's net interest income by approximately $150 million.

TD's divided yield is currently a healthy 3.52%, and the bank has stated that they will increase the dividend once a year, signifying their confidence in the business. In the first quarter of 2018, the dividend was increased by $0.07 per share, or 12%, to $0.67 per share.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank is also benefitting from rising interest rates and a widening spread, but the stock has risen by a less-than-impressive 7.5% in the last year.

However, the bank is also having a very strong start to the year and had a strong 2017 that saw a 3% dividend increase to $0.94 per share and a share buyback of 9 million shares.

Royal Bank stock has a dividend yield of 3.7% and maintains its place as an attractive dividend-paying stock.

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

Industrial Alliance Insurance and Financial Services Inc. (TSX:IAG)

Trading below long-term averages, Industrial Alliance represents a higher risk value play in the financials space with good exposure to rising interest rates.

Strong cash flow growth, a P/E ratio of well below its peer group (10 times compared to mid-teens), and a strong ROE all lead to a compelling case for upside revaluation of the stock.

In fact, with a primary focus on the Canadian market, Industrial Alliance stands to gain the most of its peer group from rising interest rates. The company has disclosed that an increase of 10 basis points in interest rates will impact net income by $15 million.

Industrial Alliance currently has a dividend yield of 2.92%.

In summary, investors would do well owning these three high-quality stocks that provide strong dividend yields as well as strong potential capital growth.

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:IAG (iA Financial Corporation Inc.)
4. TSX:RY (Royal Bank of Canada)
5. 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
2025/08/26
Date Created
2018/07/18
Author
karenjennifer