2 Top Bank Stocks to Buy As Interest Rates Continue to Rise

Description

As interest rates continue to rise, banks and other lending stocks are becoming even more attractive. Any rate increase by the Bank of Canada leads to an increase by other lenders, which usually means a slightly higher spread each time, meaning more profit for lenders.

Fourth rate hike in 12 months

This month, the Bank of Canada raised its prime rate to 1.5% and the major banks followed suit, raising their prime rates to 3.7%. While there are risks that we could see a significant correction in the housing market and it's likely that we'll see mortgages slow down as a result of this hike, higher rates should be able to offset those impacts, especially as only select markets could be impacted and it may take some time for a correction to take place.

Over the long term, however, bank stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) remain great buys, as interest rates have been low for a long time. Now, with the economy doing well and showing strong growth, there will be more demand for loans and other financial products for those looking to build and grow their wealth.

Bank stocks have been doing well as rate hikes have continued

While rate hikes will have a long-term effect, even during the short term, bank stocks have seen a bump in price, as rising interest rates are very bullish indicators for the economy as a whole. Royal Bank stock has risen 7% over the past 12 months, while TD's share price has soared by more than 16%.

There's been no indication that these hikes will stop anytime soon, especially as the economy keeps on producing strong results. For that reason, we could see their stock prices continue to climb this year as investors remain bullish on the Canadian economy.

Diversification helps to minimize overall exposure

Even in the event of a correction in the housing market or a made-in-Canada recession, both banks are well diversified with a strong presence south of the border. This is an important consideration, as it will protect shareholders in the event that domestic conditions turn out to be unfavourable.

There is still a lot of growth potential available for these banks outside of Canada, and the less dependent these lenders are on the domestic economy, the more consistent and predictable their financials will be.

In TD's case, the bank has such a large presence in the U.S. that it is expected to benefit the most of the big Canadian banks as a result of U.S. tax reforms passed last year.

Bottom line

It's never a bad time to buy bank stocks, but with interest rates on the rise, we could see more bullish activity when it comes to top bank stocks like TD and Royal Bank. With a lot of diversification, good dividends, and strong economic conditions, it's hard to find a reason not to buy either one of the stocks today.

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)
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