These 3 Canadian Banks Will Continue to Fare Well in a Rising Interest Rate Environment

Description

New reports that show that the inflation rate in Canada is at the highest level in three years make the possibility of faster and stronger interest rate increases more of a reality.

And with this reality, investors who haven't positioned their portfolios for this trend may want to think about adding stocks that will benefit from rising interest rates.

Here are three bank stocks that are worth considering.

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

With good growth ahead, a strong dividend yield, and a good entry point as the stock has picked up momentum once again, TD may be just the place for investors to gain exposure to and benefit from rising interest rates.

The stock has risen just over 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.

TD's dividend yield is currently a healthy 3.4%, and the bank has stated that it will increase the dividend once a year, signifying its 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.

Going forward, TD will continue to benefit from rising interest rates as well.

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

National Bank of Canada (TSX:NA)

National Bank currently pays an annual dividend of $2.48 per share for a dividend yield of 3.79%.

National Bank stock provided investors with a one-year return of 18%, and with the bank's most recent results (second quarter of 2018) showing strong efficiency gains and strong growth in the international and investment banking divisions, we can expect the stock to continue its upward trajectory.

And as evidence of management's confidence in this, the quarterly dividend was raised by $0.02 per share in the second quarter, and a new share-buyback program was initiated.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

Bank of Montreal is a story of playing catch-up.

With a restructuring charge taken in the second quarter of 2018, the bank has a strong future ahead of it, characterized by strong earnings growth relative to its peer group and strong efficiency gains to come (versus its peer group that have realized much of their efficiency gains).

In 2019, we can expect efficiency gains of up to 90 basis points compared to its peer group, which will have mostly achieved their efficiency gains already.

As such, the stock should see a bump up in its multiple, so this represents a good time to consider buying.

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