2 Defensive Stocks to Bulk Up on as Interest Rates Rise

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 defensive stocks that are less affected by consumer discretionary spending and by tougher economic times.

Here are two defensive stocks that are worth considering.

Metro (TSX:MRU)

With an $11 billion market capitalization and a 1.71% dividend yield, Metro has been a story of consistency, stability, and shareholder wealth creation.

And with the stock hovering in the $40-45 level in the last two years, despite continued strong results and dividend increases, we are presented with a good entry point.

To illustrate my case, 2018 earnings are expected to be 6.3% higher than 2016 earnings, and the annual dividend was increased by 16% in 2017 to $0.65 per share and by 10.8% earlier this year to the current $0.72 per share.

Furthermore, the company's steps to diversify to ensure continued growth well into the future came with its acquisition of Jean Coutu, the Quebec-based pharmacy, a strong free cash flow business with a strong retail brand, which closed on May 11, 2018.

Diversifying into the pharmacy retail business is a very positive step for Metro, as it will deliver cost synergies, cross-selling synergies, and increased efficiencies. Specifically, management forecasts that they will achieve $75 million in synergies by 2021.

All this will likely increase the stock's valuation, especially if investors move back into the more defensive sectors.

Empire Company (TSX:EMP.A)

Empire is another defensive stock that represents a good entry point.

With a $6.9 billion market capitalization and a 1.74% dividend yield, this stock is a turnaround stock that has been beating expectations.

As such, the stock has almost doubled from lows hit at the end of 2016, and with improving results and the successful execution of its three-year plan to simplify the organization and achieve annualized cost savings of approximately $500 million by fiscal 2020, it appears that the future remains bright if this momentum continues.

As a signal of the company's confidence in its strategy, a 4.8% dividend increase was instituted at the end of the company's fiscal 2018.

Empire is involved in a radical transformation, with all its efforts going to stabilize the business and to drive margins higher. And we are seeing that this renewed focus on efficiency, cost reduction, and on improving customer satisfaction is starting to pay off.

The management team, which is led by Michael Medline, who led **Canadian Tire's** impressive turnaround, has good credibility.

While it's a long road, the stock reflects this, as it is trading at a discount to its peer group.

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