Buy Toronto-Dominion Bank (TSX:TD) and Other Financials As Interest Rise at a Faster Pace

Description

Interest rates are rising, and with another 75 basis point increase expected within the next year or so, we can see that this trend is accelerating.

And as we know, rising interest rates set the stage for strong performance from Canada's biggest life insurers.

And while these companies are more than just Canadian life insurers, as they have growing businesses in Asia and growing wealth and asset management businesses, rising interest rates provide a boost to an already favourable thesis.

This thesis is predicated on two major trends.

The first is the rapidly emerging middle class in Asia, which is increasingly driving demand for financial solutions. The second is the aging population worldwide, which is driving demand for retirement and asset management solutions.

One of Canada's biggest life insurers, $31.6 billion **Sun Life Financial Inc**. (TSX:SLF)(NYSE:SLF) is reporting strong results out of Asia, but its wealth management business continues to suffer from consistent fund outflows.

While recent acquisitions provide hope that these outflows can be curtailed, this past quarter did not see the outflow let up, so this may take a bit longer.

The stock has declined 10% in the last three or so months as a reflection of this weakness, hence the buying opportunity for investors, as the stock should continue to rise against a strong backdrop.

The company has been buying back shares and has announced regular dividend payment increases, signifying management's confidence in the business, which is always a good sign. The dividend yield is currently 3.63%.

Sun Life's interest rate sensitivity is as follows: a 50 basis point increase in interest rates would increase net earnings by $50 million.

Let's move on to Canadian banks, which will also benefit from this rising interest rate environment.

With total assets of $1.3 trillion, up from $563 billion in 2008, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is fast approaching **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to become Canada's largest bank by assets.

TD's strategy has been to focus on the lower risk retail side of the business and continue to expand in the US.

The success of this strategy is evidenced by the fact that TD Bank is now the sixth largest North American Bank by total assets and by market capitalization.

TD bank stock currently pays a dividend yield of 3.46%, and this dividend has and continues to grow, leaving shareholders as the beneficiaries. The dividend has grown at a compound annual growth rate of 9.14% in the last ten years.

Royal Bank of Canada is Canada's largest bank by a small margin that has shrunk over the last few years, with assets of more than $1.3 trillion, market capitalization of approximately $150 billion, and the number one market share in many of its business lines such as personal loans and mutual funds.

Royal Bank stock has a dividend yield of 3.8% and dividends that have grown at a compound annual growth rate of 6.52% in the last 10 years.

In summary, all of these financial stocks will benefit over the next year as interest rates rise at a faster clip than initially expected.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:SLF (Sun Life Financial Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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