If Interest Rates Are Rising, Why Aren't Canadian Insurance Companies Benefiting?

Description

What happened to all the talk about rising rates positively impacting the Canadian life insurance companies? Since rates have begun to rise, the life insurers have done nothing but move in exactly the wrong direction. I remember when there was just talk of rising rates, and everyone was recommending **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF), stating these were no-lose investments since insurance companies need to offset their liabilities, insurance policies, with stable assets like bonds.

This has most definitely not come to pass. After hitting a high of around $27 a share in January, Manulife has since fallen back to around $20 — not exactly encouraging. Sun Life has not done a whole lot better, going from around $55 in May to the current level of just under $50. These stocks have essentially gone nowhere for a while. Since the biggest apparent upside tailwind — rising rates — they were supposed to have has done very little for their share prices, investors have begun to give up on these companies.

Being primarily a dividend investor, though, I can't help but continue to keep my eye on these stocks. The share price has declined, but this has resulted in raising their yields. Manulife is currently sporting an approximate 4.3% dividend and Sun Life's is almost as good at 3.9%. If you add in the fact that these companies have been raising their dividends for some time and that there may be more increases to come, these companies begin to look very attractive. The last dividend hike by Manulife was 7% in February of this year. Sun Life announced its own increase of 4% in May.

These dividends should be safe, given the strength of both companies' financial performance. In the second quarter of 2018, Manulife reported pretty good results. Core earnings grew by 25% and net income by 4%. It also had a strong increase to its return on equity (ROE), increasing it by 3.5% from 11.5% to a respectable 14%. Sun Life had an equally good quarter. Net income increased by 22% and earnings increased by 5.5% over the same quarter of 2017. The company's ROE increased from 13.5% to 14% as a result of its higher earnings year over year.

In addition to their financial performance, both Manulife and Sun Life are quite diversified geographically, with significant operations in Canada, the United States, Asia, and other regions around the world. Either company stands to benefit from global growth — a fact that has been frequently noted in many of their past quarterly and annual reports.

In other words, if the companies are performing so well, why are they pulling back? One obvious reason is that the general market pullback has affected all stocks, including these insurance companies. Another reason might be that even though short-term rates are increasing, long-term rates have not yet moved. This means that insurance companies are not yet able to buy long-term bonds at high enough rates to make a difference. A final reason that might be affecting insurance companies is the fact that the prices of the bonds they already own are most likely falling, causing a decrease in their asset's values.

Whatever the reason for the stagnation in their share prices, these insurance companies are still strong and profitable. They pay healthy dividends that have continued to grow over time and most likely will continue to do so into the future. If you hold Manulife or Sun Life for the dividends and as a potential long-term play on interest rates, you should do fine. Current holders will probably do well if they are patient, collecting those dividends while they wait for Manulife and Sun Life to turn around.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

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