Interest Rates Are Rising Fast: Buy Toronto-Dominion Bank (TSX:TD) and Manulife Financial Corporation (TSX:MFC)

Description

At its latest meeting on October 24, 2018, the Bank of Canada opted to raise the benchmark interest rate to 1.75% in a move that was widely expected. This level represents a 125-basis-point increase from 2017 levels, which is a big move.

Going forward, we can expect more interest rate increases, as the economy is strong and inflation is pushing on the Bank's target level.

This leaves financials stocks like **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) very nicely positioned to outperform.

Life insurance companies like Manulife have assets that are primarily financial in nature and are composed primarily of bonds and stocks.

Liabilities mostly consist of obligations related to the policies sold to various individuals.

Life insurance companies have high reinvestment risk, as they have high-duration liabilities.

Rising interest rates mean that cash flows will be invested at higher yields, and so the reinvestment risk is positive.

According to Manulife, a 50-basis-point increase in interest rates would have a $100 million impact on net income and have a meaningful effect on its minimum continuing capital and surplus requirement ratio.

On top of this, Manulife also has a lot going for it with respect to its business strategy and its successes.

In the second quarter of 2018, Manulife posted an 18% increase in core earnings, earnings per shareof $0.64, and the company generated an ROE of 14.1%, above its targeted range and a solid improvement from prior levels.

These results were above expectations.

Core earnings is Asia increased a solid 19%, as the insurer continues to be successful in ramping up the business in an area with a rapidly growing middle class.

The company's global wealth and asset management segment saw a 24% increase in core earnings and strong gross flow from all regions, with Asia up 35%, Canada up 33%, and the U.S. up 5%.

On the cost side, Manulife has embarked on making improvements to its operational efficiency. To this end, Manulife has achieved $500 million of pre-tax annualized cost savings in 2016, and we should expect more to come as this remains a focus for the company.

Lastly, Manulife stock is currently trading at a dividend yield of 4.35%.

And not only that, the dividend has been growing. The dividend was increased four times in the last five years, with the latest one being a 7% increase in the fourth quarter of 2017.

TD Bank stock also stands to benefit greatly from continued rising interest rates.

With total assets of $1.3 trillion, up from $563 billion in 2008, TD Bank is fast approaching **Royal Bank** 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 U.S.

Rising interest rates will increase the bank's net interest margin, thereby driving TD Bank stock higher.

This top dividend stock is yielding a healthy 3.65%, giving investors a solid income stream as they await further capital appreciation.

CATEGORY

1. Bank Stocks
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2. NYSE:TD (The Toronto-Dominion Bank)
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