



Rising Interest Rates Will Likely Take Manulife Financial Corp. (TSX:MFC) Higher

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 still expect more interest rate increases, as the economy is strong and inflation is pushing onto the Bank's target level.

Amid an environment of rising rates, it's easy to get nervous about the market in general, about certain sectors such as those whose companies hold a lot of debt, as well as those who are reliant on strong consumer spending, and about valuations.

But in this context, we should remember that there is at least one sector that stands to benefit.

That is the [financial sector](#).

Here I will talk about life insurance companies, who stand to benefit greatly from rising interest rates.

Rising interest rates mean that cash flows will be invested at higher yields, and so the re-investment risk on the assets is positive, driving higher earnings and cash flows.

Manulife Financial Corporation ([TSX:MFC](#))([NYSE:MFC](#))

The most undervalued of the group, Manulife stock price has languished in the last year, as sentiment went from bad to worse.

But looking at fundamentals, we can see encouraging results.

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.

At 4.21%, Manulife stock's dividend yield is very attractive.

From a macro perspective, interest rates are rising, and from a company-specific perspective, Manulife is seeing strong growth in wealth and asset management, and in its expansion in Asia.

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

Although also down in the last year, **Sun Life Financial Inc.** (TSX:SLS)([NYSE:SLF](#)) stock has been the most consistent and strongest, with a current dividend yield of 3.93%.

Sun Life's interest rate sensitivity is not as significant as Manulife's. A 50 basis point increase in interest rates would increase net earnings by \$50 million.

The company is reporting strong results out of Asia, but its wealth management business has been suffering from consistent fund outflows.

Great-West Lifeco. Inc. ([TSX:GWO](#)) has a dividend yield of 4.63%, which is higher than its peers, but this reflects a riskier proposition.

The company has been plagued by net outflows in its Putnam segment, with both the mutual fund and institutional business reporting outflows, with aggregate net outflows of US\$1.2 billion.

So while Great-West increased its dividend earlier this year to the tune of 6% and the company is implementing cost reductions, it seems that the deteriorating situation at Putnam and the stock's rich valuation relative to its peer group will put a damper on the stock price going forward.

CATEGORY

1. Dividend Stocks
2. Investing

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Author

karenjennifer

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