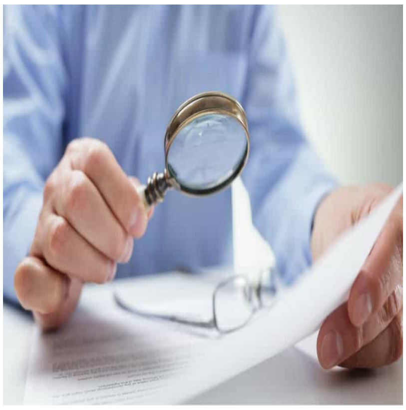

2 Stocks That Would Benefit From Lower Interest Rates (and 1 You'd Be Better Off Avoiding)

Description

Much of the talk concerning markets of late has been focused on expectations for the actions that will be taken (or not) by central bankers later this year and whether or not central banks are likely to cut interest rates this year. If they do, when will they lower them? And when they do, how much will they lower them by?

While opinions on the matter vary widely depending on who you ask, the general consensus at this point is that at least one interest rate cut will come at some point later this year.

Here are two companies that would more than likely stand to benefit from lower policy rates, and another company that, frankly speaking, is probably cheering pretty hard against the prospect of lower rates for longer.

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is one of the world's leading real estate investment trusts (REITS) boasting a world-class portfolio of investment properties housing some of the world's most valued corporate tenants.

Even though BPY isn't as highly levered as some of its REIT peers, the very nature of real estate investing typically involves borrowing large sums of capital to fund the purchase of attractive investment properties.

So, you can imagine how even a relatively small change in policy interest rates could impact a REIT's bottom line.

In this case, lower interest rates for longer is going to be favourable for a company like BPY, which currently has more than US$50 billion in asset-secured debt obligations.

Another type of investment that historically tends to perform well when interest rates are forecasted to decline is utility-like investments.

Because central bank policy rates are ultimately tied to the yields on corporate debt, when rates are expected to decline, some investors, who would otherwise allocate capital to bonds and fixed-income investments, will typically turn to utility stocks as a substitute for bonds, with their fixed-income-like dividend yields.

Inter Pipeline (TSX:IPL) is a stock that fits this bill nicely, with its 8.63% dividend yield that's majority funded by cost-based and fee-based pricing adjustments.

While its leverage metrics at the moment appear stretched, once its planned Heartland Complex comes into service, expected late 2021, management expects that trend to begin to reverse.

With strong access to capital markets, an investment-grade credit rating, and room left in its dividend structure that should allow space for future growth, IPL is a viable opportunity these days, whether you're looking for a fixed-income replacement or not.

As an alternative lender, **Canadian Western Bank** (TSX:CWB) might not be a company that's quite so poised to benefit from the prospect of an interest rate cut on the near horizon.

CWB, like other banks, makes money from the spread it charges on its loan book, but as a high-risk and high-yield lender, Canadian Western Bank is less likely to outperform its peer group on a relative basis because of the risk it faces via spread compression.

Not only will higher yields like the ones CWB charges its customers tend to fall further in a declining interest rate environment, but the bank's client base is also more likely to be vulnerable to the threat of a weakening economy, if that's why rates are expected to fall in the first place.

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