3 Blue Chip Stocks Set to Outperform Now That Interest Rates Are Lower

Description

Interest rates are now back to "historically low" levels again, with the U.S Treasury 10-year yield having fallen below 2.0% to begin July while the yields on long-term Canadian government bonds are already well below the 2.0% threshold and have been for some time.

While that's not necessarily a great thing for certain segments of the market, it should come as welcome news for shareholders of these five Canadian blue chip stocks.

Stocks like **BCE Inc.** (TSX:BCE)(NYSE:BCE) stand to benefit from a lower interest rate environment in a couple of ways.

For one, with rates on long-term bonds now south of 2.0% annually, the 5.25% dividend yield currently on offer from BCE certainly begins to look all that more attractive.

Not to mention that utility-like stocks, like Bell Canada Enterprises, also tend to carry high levels of debt on their balance sheet so provided that those balance sheets continue to be responsibly managed and debt levels don't reach uncontrollable levels, lower rates essentially carry the benefit of a boost to the bottom lines of utilities and telecom stocks.

Magna International Inc. (TSX:MG)(NYSE:MGA) is interesting because even though its one of North America's largest auto parts suppliers, it actually maintains a fairly light balance sheet in terms of its outstanding financial obligations to creditors.

Like BCE, the 3.03% annual dividend yield on MG stock also starts to look all that much more appealing in light of sharply lower bond yields, but that's not all that Magna shareholders have going for them in light of lower interest rates.

Besides home ownership, automobile purchases are typically second to the top of the list in terms of a household's largest expenditures, and with interest rates lower, there is some incentive for would-be car owners to go out and accelerate the timing of their next purchase in order to take advantage of discounted borrowing rates.

As well, trading at trailing price-to-earnings ratio just north of seven times earnings, MG stock was looking pretty attractive as investment opportunity already.

Now, you might be surprised to see a bank show up on a list of companies that stand to benefit from a lower interest rate environment, but what makes **Royal Bank of Canada** (TSX:RY)(NYSE:RY) unique among its Canadian banking peer group is that it gets considerably more of its revenues from non-interest, or "fee-based" revenues than its competitors.

Of note is RY's wealth management division, the strongest of any among its Canadian peer group and arguably a formidable competitor on the global stage to boot.

The fact that RY gets more of its revenues from non-interest sources than its peer group means that its stock should be expected to outperform on a relative basis going forward, at least until circumstances change.

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2. NYSE:MGA (Magna International Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BCE (BCE Inc.)
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