



## Lower Interest Rates Coming to Canada: Here Are 2 Ways to Benefit

### Description

A growing number of investment banks and research firms are concerned the Bank of Canada may have a more dovish tone at its next meeting on September 4. On Tuesday, strategists at **Goldman Sachs** put out a note on their expectation for the Bank of Canada (BOC) to sound a more dovish tone going forward.

The strategists believe that Canada's economy, which has held up well so far in 2019, will be under increased pressure going forward from the ongoing trade war concerns and slower global growth.

On the same day, a senior economist at **BMO** said it expects the BOC to cut rates in October, with an early indication coming next week at its September meeting. It thinks that October seems more prudent, as it follows the week of the Canadian election, so there would be less uncertainty for policy makers then.

Regardless of whether the BOC cuts rates next week or in October, there is a good chance it will affect your portfolio one way or another. Here are two ways investors should start to think about how their portfolio may be impacted.

### Interest rates

Stocks that are influenced by [interest rates](#) will most likely be the highest affected. The BOC will either keep rates unchanged or decrease rates, meaning that companies that have a large portion of their capital makeup in debt will be the most impacted.

Utility companies stand out as the number one benefactor of lower interest rates. Take **AltaGas** for example. Last year, the BOC raised interest rates on July 11 and again on October 24. Each time interest rates were raised, AltaGas stock dropped, given the decrease in profitability the company is forecasted to make when interest expenses rise.

This year, when policy makers go the other way, so too should its stock, because interest expenses will be projected to be less, increasing the company's profitability.

In addition, as bond yields decline, investors will look for higher-yielding assets to offset some of their income investments. Top utilities stocks will see the brunt of investment, as the dividends will be highly stable and offer significantly higher yields than bonds.

Investors who may not own a ton of utilities stocks may think about buying some before the meeting, as a decrease in rates will be sure to fuel the stock's rapid increase.

## Foreign exchange

Companies that sell their goods or services outside Canada but pay a lot of their bills here will also most likely benefit. If the BOC decreases interest rates, it naturally will decrease the Canadian dollar relative to other currencies, with all else being equal.

A decrease in the Canadian dollar helps to boost exports and makes foreign currency more valuable to Canadians who receive it.

A company like **Alaris Royalty**, an investment company that has roughly 83% of its portfolio invested in the United States, is just one example of a company that's poised to benefit.

It operates out of Calgary, so most of its costs are in Canadian dollars, but it has more than three-quarters of its portfolio tied to the U.S dollar. This means its royalty payments will be worth more when they are paid out and the Canadian dollar is trading at a discount.

Finding stocks like Alaris that do the majority of business in the U.S but pay the majority of their expenses in Canada is an easy way for investors to find companies that will have a natural increase in profit.

## Bottom line

Whether or not the bank is dovish and lowers rates, it's important to know how it may affect your portfolio and come up with a plan ahead of time. This way you can optimize your portfolio for the best returns, and you won't act impulsively if something unexpected happens.

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