Summer 2021 Top Pick: Manulife Stock

Description

With inflation rising, it appears that safeguarding portfolio value is one of the main concerns of investors right now. That's why there's a lot of interest in stocks that can excel in the current market scenario.

In this context, I think **Manulife Financial** (TSX:MFC)(NYSE:MFC) is an excellent option worth considering today. Here's why.

Manulife's long-term viable business model

Although the business model of Canada's largest life insurance company is sensitive to interest rates, it remains one of my top picks today. Manulife has been able to perform well, despite the ongoing economic turmoil, and its robust business model has certainly played a vital role. Besides its core insurance business, it offers other products and services that have been designed for middle-class individuals.

The Toronto-based company is well-diversified geographically. Each of the company's core markets (Canada, the U.S., and Asia) contribute roughly one-third of its total revenue. The company has provided investor with a 12.64% return on equity at the time of writing. These returns have been made possible via the company's well-diversified, growth-oriented business strategy.

Indeed, the company is taking measures to exit its capital-heavy legacy businesses. At the same time, Manulife is investing rigorously in technology to provide a boost to its internal efficiencies.

This stock trades around the $25 mark, which is roughly 1.1 times its book value. Furthermore, Manulife stock has a dividend yield of 4.2% today, which is certainly attractive for investors in comparison to other Canadian life insurers. Also, Manulife stock has a valuation multiple of 9.4 times earnings. Indeed, in comparison to some of the major banks, this appears to be dirt cheap.

Other factors to consider

The interest rate environment is directly related to Manulife's earnings. After all, this is a multi-national insurance company. Accordingly, high interest rates are extremely bullish for Manulife. While interest rates remain near historic lows, the yield curve is steepening, and rates are rising somewhat.

Although bond yields appear to have stabilized lately, it was not long ago that bond yields hit 14-month highs. Indeed, it appears that any small, favourable catalyst could increase inflationary pressure, thus resulting in higher yields. Due to Manulife's sensitivity to interest rates, this stock actually provides a nice hedge to an investor who is heavy on growth stocks, as these should act inversely in a rising rate environment.

Bottom line

With inflation rates rising, Manulife's robust business model and dirt-cheap valuation are driving bullish expectations for this stock. For investors who are looking to play the financial space right now, I think Manulife is certainly one of the best options on the TSX today.

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TICKERS GLOBAL

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