5.5 Million Canadians Are at Financial Risk Should Interest Rates Rise

Description

Economists warn of an impending danger that would impact 5.5 million Canadians, primarily homeowners with large mortgages. According to MNP, a debt consultancy firm, these people are financially susceptible if interest rates rise. Rising borrowing costs might also affect the real estate frenzy.

Significant impact

CIBC Deputy Chief Economist Benjamin Tal said, “That’s the number one issue facing the Canadian economy: the increased sensitivity to higher interest rates.” A slight increase in interest rates would have a significant impact on household balance sheets. The monthly mortgage payment for some homeowners could even double with only a 1.5% increase.

Tentative target date

The Bank of Canada brought down borrowing costs and maintained its key interest rate (0.25%) at historic lows since March 2020. The move was necessary to soften the impact of the economic crisis tied to the global pandemic. With economic activities perking up due to rising vaccination rates and inflationary signs, several analysts predict that the central bank will end the low-interest-rate environment in the second half of 2022.

Savvy investors’ move

Things aren’t stable as it seems in the resilient stock market. Investors also fear rising inflation because its effect is treacherous. Apart from the reduced purchasing power of consumers, revenues and profits of companies could decline. If you plan to counter the ill effects of high inflation, do what savvy investors do.

Steady dividend growth

Fortis (TSX:FTS)(NYSE:FTS) is the perennial choice of risk-averse investors when inflation heats up. Be warned, however, that the price of this top-tier utility stock could slide if interest rates increase significantly. Still, steady dividend growth will provide the cushion or compensate for the price drop.

The $26.66 billion regulated gas and electric utility company boasts an impressive dividend growth streak. Fortis has raised its dividends for 47 consecutive calendar years, including the 2008-2009 financial crisis. In the first half of 2021 (six months ended June 30, 2021), Fortis reported an 8.03% increase in adjusted net earnings versus the same period in 2020.

More importantly, management maintained its annual dividend growth guidance of approximately 6% through 2025. At $56.58 per share, the dividend yield is a respectable 3.57%.

With its $19.6 billion five-year capital plan, Fortis' base growth would increase to $36.4 billion by 2023, then to $40.3 billion by 2025. Management estimates the compound annual growth rates to be around 6.5% and 6.0% in three- and five-year time frames.

Growth-oriented IPP

Like Fortis, **Capital Power** (TSX:CPX) is equally capable of paying uninterrupted dividends during inflationary periods. This $4.85 billion independent power producer has raised its dividends for eight straight years. At $42.30 per share (+24.16% year-to-date), the dividend yield is a generous 4.85%. CPX's total return in the last five years is 177.36% (22.61% compound annual growth rate).

Capital Power President and CEO Brian Vaasjo said the $101 million net income in Q1 2021 exceeded management's expectations. The quarter's highlight was the 100% increase in net cash flows from operations to $206 million versus Q1 2020.

Expect Canada's leading wholesale power generator to keep increasing cash flows in the years ahead. Most of its power-generating assets are young, with an average economic life span of 14 years.

Somewhat of a good thing

On the brighter side, CIBC's Tal said higher interest rates could be a good thing. It would suppress the astronomical home price growth and slow down the red-hot housing market.

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