#1 Concern of Canadians: How Long Will the Near-0% Interest Rate Hold?

Description

Statistics Canada reports that inflation rose 3.1% in July 2021, the most significant increase since May 2011. The Bank of Canada earlier said inflation will hover around 3% in 2021 if you compare prices today versus the price drops and spending declines in the early months of the health crisis.

High inflation is a concern, but Canadians fear the increase in interest rates more. The low-interest-rate environment has lingered for quite some time. Now, everyone suspects there's no way to go but up when the economy rebounds. Fortunately, the central bank calmed the anxiety.

Time table

Canadians are fully aware of the debilitating impact should the central bank increase interest rates. Benjamin Tal, the deputy chief economist at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), said increased sensitivity to higher interest rates is the number one issue facing the Canadian economy.

Governor Tiff Macklem said, "The reopening of the economy and the strong progress on vaccinations have given us reason to be more optimistic about the direction of the economy." Macklem also said the interest rate will remain near zero until the economy can handle an increase. The timetable is in until the second half of 2022.

Impact on households

Households with large mortgages are likely to be in distress, even with a 1.5% increase. Monthly mortgage payments could double. On the positive side, a slight increase in interest rates can dampen the breakneck home price growth, says Tal.

Diana Petramala, a senior economist at Ryerson University's Centre for Urban Research and Land Development, made a similar observation. She said, "If interest costs were to go up one to two percentage points, because of the level of debt, households could be put in a position where they're devoting a significant share of their income to making their mortgage payments."

Canadians can manage their debts due right now to rock-bottom interest rates. According to Statistics Canada, accumulated mortgages and home equity lines of credit (HELOCs) have already reached more than $1.96 trillion. The good news is that despite mortgage debt soaring, the ratio of overall debt to disposable household incomes is still lower than in the pre-crisis.

Investment landscape

Regarding the investment landscape, the stock market continues its bull run amid the ongoing pandemic. The TSX is doing far better than expected. As of August 20, 2021, the index remains in the record zone. Ten of the 11 primary sectors are in positive territory. If you were to invest right now, one big bank is the logical choice.

CIBC is the second top performer among the Big Five banks with its 38.74% year-to-date gain. The gains of the rest are as follows: **Royal Bank of Canada** (+40.22%), **Bank of Montreal** (+35.97%), **Toronto-Dominion Bank** (+23.32%), and **Bank of Nova Scotia** (+20.41%). Note that all five banks outperform the TSX (+16.67%).

Canada's fifth-largest lender was also the only one in the group whose net income tripled (321%) in Q2 fiscal 2021 versus Q2 fiscal 2020. The $66.29 billion bank pays a 3.96% dividend, the second highest in the banking sector. You can purchase CIBC at $147.61 per share.

Potential risk

Macklem said the Bank of Canada plans to let inflation run hot as it waits for the labour market to reach pre-pandemic employment levels. However, CIBC's Tal warns that rising inflation will force the central bank to accelerate the pace of interest rate increases.

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