



Interest Outlook: Rate Hike Coming in Q4 2022

Description

Most economists and market analysts predict that the Bank of Canada will increase its interest rate by Q4 2022. **Well Fargo's** outlook is more hawkish than the consensus forecast. The American bank says the initial rate hike will happen in Q3 2022.

However, portfolio manager David Wolf from Fidelity Investments has a different take. From Wolf's perspective, supply constraints and hotter-than-normal inflation will force Canada's central bank to act sooner than later.

Hot topic

Rising inflation is a hot topic these days among economists, although the reactions are mixed. Capital Economics senior Canada economist Stephen Brown said inflation rose higher than expected, but the Feds remain comfortable, saying the spike is transitory.

Royce Mendes, **CIBC** Capital Markets's executive director for economics, said the 4.1% inflation rate could be the peak of the mountain. Prices increased because many services are making for lost ground in the reopening phase. Sal Guatieri, senior economist at **BMO** Capital Markets, believes inflated home prices put general upward pressure on inflation.

Besides the spreading Delta variant, rising inflation is a [threat to the stock market](#). The TSX's rally, for example, is losing steam. Investors are anxious again and looking for the best [investments options](#) in Q4 2021.

For income investors

Canada's big banks are the go-to investments when market uncertainties are high. **National Bank of Canada** ([TSX:NA](#)) is sixth on the hierarchy, but it's been a steady performer throughout the health crisis. This bank stock outperforms its bigger industry peers, and the broader market with its 40.34% year to date. At \$98.24 per share, the dividend offer is a decent 2.89%.

Daren King, an economist at National Bank, said variable-rate mortgages have never been popular. His observation is based on the central bank's data that more than 50% of mortgages extended by banks in July 2021 are variable rates. King added that fixed mortgages, whether new purchases, renewals, and refinances, have lost their lead.

King notes that nearly 40% of variable mortgages in Canada have fixed payments, which is advantageous to borrowers. The total mortgage payment would remain the same, even if interest rates were to increase. Also, the capital-repayment portion decreases. Thus, the impact of a higher rate is gradual as the loan matures.

For growth investors

Real Matters ([TSX:REAL](#)) is an excellent choice for [growth investors](#). The \$779.11 million company provides technology and network management solutions to mortgage lending and insurance industries in North America. The Markham-based firm competes for market share in the residential mortgage appraisal market, primarily in the United States. It also offers title closing services.

Like in Canada, demand for housing in the U.S. is robust. Real Matters leverages its best-in-class technology-based platform to win clients over. The growth runway is long, given the large addressable market (US\$13 billion).

Real Matters is among the TSX's top 30 growth stocks in 2021. It has rewarded investors with a 114.73% (28.89% CAGR) in the last three years. The tech stock carries a buy rating from analysts. They forecast the price to climb from \$9.77 to \$18.91 (+93.51%) in the next 12 months.

An earlier increase is possible

The 4.1% increase in Canada's consumer price index in August 2021 was the fastest pace ever since 2003. Fidelity's David Wolf might be correct that the Q4 2022 forecasts are off the base. Policymakers might have to start raising interest rates in the first half of 2022.

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Date

2025/09/10

Date Created

2021/10/06

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