Inflation Pressure Mounts: Higher Borrowing Costs in Mid-2022?

Description

The timeline for an interest rate hike seems to have changed sooner, not later. With supply chain disruptions accelerating inflation, the Bank of Canada has been mulling over raising borrowing costs in April 2022. So far, the central bank's quantitative easing program includes maintaining the near-zero interest rate environment and buying government bonds.

Market observers, however, think the initial hike will happen in the middle quarters of next year. Also, they anticipate four rate hikes overall in 2022. In a poll by BNN Bloomberg, 63% of respondents said the BOC shouldn't wait until the middle quarters of 2022 to raise interest rates.

BOC's latest Monetary Policy Report says the greater concern now is the upside risk to inflation. Prices have soared above the Feds 1% to 3% control range. CIBC World Markets Deputy Chief Economist Benjamin Tal advises homebuyers to prepare for higher interest rates. Tal foresees rate increases next year.

Financial stocks on the move

On the **TSX**, the shares of two companies in the lending business are soaring. **Goeasy** (TSX:GSY) investors are up 104.55% year to date, while **Mogo** (TSX:MOGO)(NASDAQ:MOGO) outperforms with its 357.49% trailing one-year price return. Market analysts recommend strong buy ratings for the member of the TSX30 growth stock and the fast-growing financial technology company.

Alternative financial company

goeasy provides non-prime leasing and lending services. It offers secured and unsecured personal loans, home loans, auto loans, and secured savings loans. Borrowers prefer this alternative financial company over traditional banks or lenders because of instant credit decisions and faster turnaround time on loan releases. Canadians with bad credit can also rebuild their borrowing histories.

On April 30, 2021, goeasy acquired point-of-sale (POS) fintech company LendCare. The $3.2 billion

company's goal is to accelerate growth through product range and POS channel expansion. Its President and CEO, Jason Mullins, said, "By widening our range of near-prime products and adding new industry verticals to our point-of-sale lending channel, we accelerate our growth."

Mullins adds the addressable portion of the non-prime consumer market is about $200 billion. In Q2 2021, revenue and adjusted net income growth versus Q2 2020 were 34.3% and 50.3%. The current share price is $195.19, while the dividend yield and payout ratio is 1.36% and 16.63%, respectively.

Accelerating growth

Mogo's subscription and services are growing at a fast pace. The $477.85 million digital payments and financial technology company saw them increase 81% in Q2 2021 versus Q2 2020. The record $8.2 million represents 60% of total revenue. Management also reported $9 million in net income compared to the $1.6 million net loss in the same period last year.

David Feller, Founder and CEO of Mogo, reveals the plan is to build the most comprehensive money app in Canada. The range of mobile-first solutions will help users borrow, save, invest, and build wealth. Apart from acquiring saving and investment app Moka in May 2021, Mogo increased its ownership in cryptocurrency platform Coinsquare to 14% in June.

Mogo outperforms the TSX year to date, +57.85% versus +21.88%. The $7.64 share price could climb 76.7% to $13.50 in 12 months based on analysts' forecasts.

Question for homebuyers

CIBC's Tal has a question for prospective homebuyers. He asks, "Can you afford this mortgage if rates will be ten, 150, 200 basis points higher? If not, buy a smaller house or rent."

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