Got $500? 2 Canadian Stocks to Buy As Interest Rates Rise

Description

With the Bank of Canada recently indicating that interest rates could be in the cards potentially sooner than expected, investors may wish to consider some of the neglected financial plays that stand to benefit before their price of admissions is bid up.

Higher interest rates on the way?

Indeed, the Canadian banks and insurers have been on the receiving end of the 2020 coronavirus stock market crash. But they've been climbing back ever since bottoming out earlier last year. With rates poised to rise, many top Canadian financial stocks could be in a spot to make up for lost time. The Canadian banks have been stuck in a rut well before the COVID crisis struck in 2020.

Some folks who viewed the rise of fintech disruptors wouldn't touch the big bank stocks with a 10-foot barge pole. In a way, they stand to be disrupted. Still, Canada's banks are far more robust than most think, and many are investing heavily in technological initiatives that could keep fintech firms at bay.

Indeed, the advent of commission-free trading has had a profound impact on the U.S. market. It's changed the game for retail investors. **TD Bank** (TSX:TD)(NYSE:TD) had to pivot, with the sale of its TD Ameritrade business for a sizeable stake in Charles Schwab in what was a race to zero trading commissions. TD and most other banks aren't sleeping at the wheel, especially with the rise of digital-first banks and interest-free lenders.

Undoubtedly, the financial world is ripe for disruption. But with deep pockets to match and potentially raise the value proposition for consumers, the big banks have an opportunity to prove themselves in the new age. With rates poised to rise, the banks will finally get the tides turning in their favour, and the magnitude of dividend hikes and innovation could take off.

So, if you've got $500 to put to work, consider the following innovative banks poised to get a multi-year tailwind of rising rates.

TD Bank

TD Bank is a great Canadian bank that could raise its dividend by a considerable amount, now that the broader basket of banks has been given the green light to resume such hikes and share repurchases. Indeed, macro conditions have improved drastically over the past year and a half. So much so that TD would have hiked its dividend as it usually would have had it not been for the broader pause. There was no issue with TD's capital ratio. In fact, there was still much wiggle room, as the crisis-tested bank was ready to continue navigating the COVID storm.

Provisions are now the talk of yesteryear. Now, it's all about loan growth and the potential for higher margins going into a higher-rate environment. With plenty of innovation going on behind the scenes and enough dry powder for a sizeable acquisition in the states, investors would be wise to consider TD stock while it's relatively discounted and before the big dividend hikes come flowing in.

National Bank of Canada

National Bank of Canada (TSX:NA) is an underdog in the Big Six, but it's arguably one of its most disruptive. The bank was the first of the six to ditch commissions. Moving forward, count on the Big Six peers to follow National Bank's lead as the banking industry in Canada changes for the better. Indeed, National Bank enjoys many of the same tailwinds as its peers. As the bank continues expanding to become less regional, it'll deserve a higher multiple.

After a remarkable 2020, NA stock is a buy, even though the valuation is in the mid-to high-range versus its peers, with a dividend yield (2.7%) that's on the low end.

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