2 Canadian Stocks to Buy Ahead of a Rising-Rate Environment

Description

Canadian stocks are in a bit of a bad mood following the release of some high U.S. consumer price numbers. With CPI coming in hot at 6.2%, the highest in around 31 years, the case for transitory inflation seems to be getting weaker. Undoubtedly, the U.S. Federal Reserve may be pressured to raise rates in the new year, perhaps a quarter or so sooner than expected. Over here in Canada, inflation also remains at problematic levels. With the Bank of Canada (BoC) ready to raise rates, perhaps in 2022, Canadian investors should brace themselves for the potential impact.

Cheap Canadian financial stocks for a higher-rate environment

Undoubtedly, rate hikes aren't ideal for stocks, but they can still do pretty well. Moreover, you can position your portfolio in a way to thrive in a rising-rate environment, with blue-chip Canadian financials and other firms that may get a bit of a tailwind, as economic growth and higher rates kick in over the coming years.

In this piece, we'll have a look at two Canadian financials that strike me as too cheap to ignore, given the likelihood that we're at the cusp of a higher-rate environment. Further, both names have dividends that can help investors make it through any inflation that could persist over the coming quarters.

Without further ado, consider shares of **TD Bank** (TSX:TD)(NYSE:TD) and **Great-West Lifeco** (TSX:GWO), two resilient Canadian stocks that are more than capable of charging higher over the next three to five years.

TD Bank

TD Bank stock is steadily moving higher again after its relief rally stalled out for the summer. As a banking giant that stands to benefit greatly from higher rates, TD is likely to regain its premium over its Big Six peer group after what's been a pretty forgettable past two years. Moreover, the stock seems way too cheap, given the bank's lengthy track record of holding its own through turbulent economic times. With enough dry powder to make a sizeable acquisition to bolster its American retail banking business, TD is a great financial for investors seeking exposure on both sides of the border.

Finally, the 3.4% dividend yield is likely to grow at a respectable double-digit percentage rate for years to come. Amid a rising-rate environment, I'd argue TD's dividend could grow the fastest versus the likes of its peers over the next decade. In short, TD's an incredibly well-run North American bank that's trading at the low end of its historical range, primarily due to near-term underperformance that may not be sustainable.

Great-West Lifeco

Great-West Lifeco isn't a financial that gets much attention from the Street. The stock has been stuck below its resistance level for many years. Recently, the name finally broke out, flirting with $40 before dipping modestly.

With an improving macro environment for the financials, I think GWO stock is taking a mere breather before its next leg higher. Great-West did a remarkable job of bouncing back from COVID disruptions. And once rates begin rising on the back of a solid economy, it'll be tough to keep GWO shares down. At 10.9 times earnings, with a 4.6% yield, GWO provides investors with the perfect mix of income and relative momentum.

CATEGORY

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Author
joefrenette