ALERT: Will Higher Interest Rates Sink Canada's Housing Market?

Description

The Canada housing market has reached new heights since the beginning of the COVID-19 pandemic. Policymakers are now looking for solutions, as affordability has grown into a major issue. The market has gorged on historically low interest rates, lack of supply, and surging demand that has only heightened over the past decade. However, the Bank of Canada has now telegraphed that it aims to raise interest rates in the months ahead. Could this threaten the health of the Canada housing market in 2021 and beyond?

Should Canadians be worried about higher interest rates?

Canadian policymakers have been hammered for their supposed inaction in the face of rising housing prices. However, frothy housing markets are present across the developed world. The same loose monetary policies have led to familiar conditions in European housing markets like Germany and England. Australia and New Zealand also possess some of the least-affordable housing on the planet.

Housing is not the only market that has been propped up by historically low interest rates. Indeed, the stock market has thrived in this friendly climate. A return to "normalcy" on the interest rate front will pose a major challenge to a market and economy that has benefited from very accommodative central bank policy. If central banks stick to their guns on interest rate hikes, investors need to be prepared for serious turbulence.

What housing stocks will suffer in this environment?

Alternative lenders like **Home Capital** (TSX:HCG) and **Equitable Group** (TSX:EQB) have benefited from the Canada housing bull market. Shares of Home Capital have climbed 40% in 2021 as of mid-afternoon trading on November 10. The stock is up 61% from the prior year. Meanwhile, Equitable Group has increased 52% in the year-to-date period. Will these stocks be worth owning if interest rates start rising?

Back in March, I'd discussed why policy intervention was the only thing that could torpedo the Canada housing market. For now, Home Capital and Equitable Group are still stocks worth holding onto. Home Capital will have unveiled its next batch of results by the time this article is published. Meanwhile, Equitable Group delivered its Q3 2021 earnings on November 2.

Assets under management (AUM) at Equitable Group reached a record $40.2 billion. Meanwhile, reverse mortgage assets soared 259% from the same period last year. This stock possesses a very favourable price-to-earnings (P/E) ratio of 9.8. It is still posting strong earnings in this favourable environment. Investors should not shy away from either alternative lender just yet.

Here's a housing stock I'm stashing in late 2021

Atrium Mortgage (TSX:AI) was one of the Canada housing stocks I'd recommended for investors last month. The Toronto-based company provides financing solutions to real estate communities across Canada. Atrium could suffer from the knock-on effects of higher interest rates in the months ahead. However, I'm still bullish on the stock in the near term.

In Q3 2021, the company saw its mortgage portfolio rise 2.7% year over year to $765 million. Meanwhile, net income climbed 11% to $10.6 million. Shares of this housing stock last had an attractive P/E ratio of 15. Better yet, it offers a monthly dividend of $0.075 per share. That represents a tasty 6.1% yield.

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aocallaghan