3 ETFs to Buy When Interest Rates Rise

Description

Earlier this month, I'd discussed whether the red-hot Canada housing market was heading for a correction. This week, the Bank of Canada (BoC) said that it was "getting closer" to raising its benchmark rate. BoC governor Tiff Macklem said that the rate hike would come when the slack in Canada's economy had been absorbed. He also noted the problem of inflation, designating it as largely transitory. Today, I want to look at exchange-traded funds (ETFs) that are well positioned for success in the event of interest rates hikes.

Oddsmakers are projecting a rate hike from the BoC by March 2022. Moreover, money markets expect a whopping five rate hikes throughout 2022. This is a climate that investors should actively prepare for.

Here's a top ETF to buy if you are worried about interest rate hikes

Purpose Floating Rate Income Fund ETF (TSX:FLOT) have an active strategy that is designed to preserve capital in a rising interest rate environment. Its interest payments adjusted to changes in reference rates. Moreover, these payments reduce portfolio duration and protect invested capital.

Shares of this ETF have climbed 3.3% in 2021 as of early afternoon trading on November 16. The ETF is up 5.6% from the previous year. As of November 12, 2021, just over 46% of the holdings in this fund are term loans. Another 43% are made up of mortgage backed securities and cash or cash equivalents. Meanwhile, under 10% of its weighting are in high-yield bonds, foreign stocks, and investment-grade bonds.

This ETF took a significant hit during the March 2020 market pullback. It is a solid target for investors who are gearing up for expected rate hikes in 2022 and beyond.

Two financial-focused ETFs to snatch up in this climate

Financials are typically well positioned to benefit from higher interest rates. Bank stocks have already bounced back in a big way during the economic recovery. Higher interest rates improve profit margins for credit products. Top financial institutions have seen their credit portfolios balloon over the past two years.

RBC Canadian Bank Yield Index ETF (TSX:RBNK) aims to invest and hold the constituent securities of the Solactive Canada Bank Index. Its strategy aims to maximize dividend yield and return potential. Shares of this ETF have increased 34% in the year-to-date period. Its shares are up 41% from the prior year.

This ETF holds the Big Six Canadian banks. The top two holdings are **Scotiabank** and **Canadian Imperial Bank of Commerce** at nearly 50% of the total weighting.

iShares S&P/TSX Capped Financials Index ETF (TSX:XFN) is another financials-focused ETF that can thrive in a higher interest rate climate. Shares of this ETF have climbed 31% in the year-to-date period. The stock is up 35% year over year.

This ETF seeks targeted exposure to Canadian financial companies. It launched all the way back in March 2001. Canada's top two bank stocks — **Royal Bank** and **TD Bank**— are the two largest holdings in this ETF. It also offers a monthly distribution that yields over 2.5%.

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