2 Canadian Stocks I'd Buy Before Rate Hikes Kick In

Description

Going into year-end, inflation looks quite unforgiving. In Canada, inflation is above 4%. In the States, it broke past 6%. While inflation is creeping steadily higher, the rate of climb may signal a peak over the coming months or quarters. Indeed, the Bank of Canada (BoC) has the means to pull rate hikes forward, while the U.S. Federal Reserve, with Chairman Jerome Powell, who earned his spot at the chair for another term, is poised to follow suit in 2022.

Powell, who views inflation as transitory, will continue course and will likely do his best to ensure financial markets aren't in a position to selloff on a surprising pivot. Indeed, after a year-end plunge back in 2018, Powell is doing his best to minimize surprises, as he looks to allow employment more of a chance to heal from a brutal 2020.

Powell's employment-focused decisions could pay off big if he's also able to put the inflation genie back in the bottle next year. For now, Canada is likely to be more sensitive to the Fed than the BoC, given America's heavy influence on Canadian stocks. In any case, here are two Canadian stocks that could be in a spot to fare well once we're propelled into a rising-rate environment.

Intact Financial

Intact Financial (TSX:IFC) is a standout insurer on the **TSX Index**. The property and casualty (P&C) insurance company is incredibly well run, and the results speak for themselves after outperforming the broader Canadian insurers over the past several years. The stock is up around 80% over the past five years.

With growing dividends thrown into the equation, it's clear that shares of IFC are more than worthy of holding at the core of one's TFSA for the long haul. It's the perfect stock for all weathers. Fellow Fool contributor Chris MacDonald agrees, touting the insurer's return on equity (ROE), which remains strong at nearly 20%. MacDonald argues that while IFC is pricier for an insurance play, the company is more than worth paying up for, given it's incredibly well run, with a proven ability to produce solid returns over time. As rates begin to rise, investors should expect more of the same, substantial capital gains alongside dividends and generous payout hikes.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is a solid Canadian bank that also has a pretty robust U.S. business. The bank has a growing presence south of the border and has grown as more of a U.S.-Canadian banking combo over the years, providing investors with a front-row seat in two nations worth banking on. With rate hikes likely in the cards for both countries in 2022, BMO has the means to continue its epic rally. The stock remains quite cheap at 12.9 times trailing earnings. The 3.1% dividend yield is also poised to continue growing through the years now that macro conditions are improving, and regulators have given Canadian financial firms to go regarding share buybacks and dividend raises.

BMO's growing line of ETFs and tech-savvy investments should also pay off over time. While most banks are betting big on such fintech opportunities, BMO is one of few leading the pack.

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Author
joefrenette