The 3 Best Dividend Stocks to Hold When Interest Rates Rise

Description

The Bank of Canada (BoC) has held the benchmark interest rate at the historic low of 0.25% since March 27, 2020. It was spurred to drop interest rates after the COVID-19 pandemic reached Canada and had triggered the first set of lockdowns. Nearly two years later, the central bank has telegraphed that it aims to pursue rate tightening sooner rather than later. Today, I want to look at three dividend stocks that are worth holding when the BoC moves to hike rates.

Why Canadian bank stocks will benefit from rising rates

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the fifth-largest of the Big Six Canadian banks. Shares of this bank stock have climbed 38% in 2021 as of close on November 25. However, the stock has dropped 1.1% month over month.

CIBC is set to unveil its fourth-quarter and full-year 2021 earnings before markets open on December 2. Banks have benefited from the credit expansion that has occurred in this low interest rate environment. However, interest rate hikes will also work to boost profit margins at Canada's top financial institutions. Earlier this month, I'd discussed why rate hikes should drive investors to invest in financial stocks.

Shares of this dividend stock possess a favourable price-to-earnings (P/E) ratio of 11. Better yet, it offers a quarterly distribution of $1.46 per share. That represents a 3.9% yield.

Here's an alternative financial services dividend stock to watch in this climate

goeasy (TSX:GSY) is a Mississauga-based company that provides loans and other financial services to Canadian consumers. I'd suggested that investors snatch up goeasy all the way back during the March 2020 pullback. This dividend stock has surged 111% in the year-over-year period.

The BoC has warned that rising levels of household debt will put pressure on Canadians as interest rates rise. Indeed, the financial health of the average Canadian was already in worrying condition on average coming into 2020. Fortunately, goeasy offers financial services to non-prime borrowers. Demand for these services is likely to grow in a tough economic climate.

In Q3 2021, it delivered loan portfolio growth of 60% to $1.90 billion. Meanwhile, adjusted net income was reported at $46.7 million or $2.70 per share — up 48% and 35%, respectively, from the previous year. This dividend stock last had an attractive P/E ratio of 11. It is also a Dividend Aristocrat that offers a quarterly distribution of $0.66 per share, representing a modest 1.4% yield.

One more dividend stock in regional banking to snatch up in late 2021

Canadian Western Bank (TSX:CWB) is a regional bank that often flies under the radar compared to its larger peers. Shares of this dividend stock have increased 39% in 2021 as of close on November 25. Like CIBC, Canadian Western can also benefit from the improved margins that will come from higher rates.

The bank delivered revenue growth of 16% in the third quarter of 2021 to $263 million. Meanwhile, loans rose 9% from the prior year to $32.3 billion. Moreover, branch-raised deposits jumped 17% to $18.7 billion.

This dividend stock also possesses a favourable P/E ratio of 11. It last paid out a quarterly dividend of $0.29 per share. That represents a 2.9% yield.

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