3 Top ETFs to Protect Against Interest Rate Hikes

Description

The Bank of Canada (BoC) is gearing up for a series of interest rate hikes in 2022. Policymakers have been feeling the heat, as inflation in Canada reached a 30-year high of 4.8% in December 2021. The BoC is set to have its next meeting on January 26, 2022. Investors should prepare for an upward move next week. Today, I want to look at three exchange-traded funds (ETFs) that you should hold in a rate-tightening environment. Let's jump in.

This bond ETF is a solid target if central banks pursue rate tightening

Bond yields experienced a big move upward earlier this week, which spurred volatility in equity markets. Investors may want to target bond-focused ETFs, as central banks set their sights on rate hikes. **iShares Canadian Real Return Bond ETF** (TSX:XRB) seeks to provide income by replicating the performance of the FTSE Canada Real Return Bond Index. Shares of this ETF have dropped 4.4% in 2022 as of early afternoon trading on January 21.

This ETF offers exposure to Canadian federal and provincial real return bonds. Moreover, it aims to provide a consistent and inflation-adjusted income stream. It is advertised as a low-risk option to protect against inflation. The bulk of its holdings are federal government bonds, while it is rounded out by provincial government bonds from Ontario and Quebec.

Here's another fund I'd hold as rates are set to jump

Mackenzie Floating Rate Income ETF (TSX:MFT) is another ETF that is worth consideration ahead of the BoC's planned rate hikes. It advertises higher income potential due to floating rate loans being generally below investment grade and yields exceeding conventional fixed-income instruments. Moreover, profit margins at top lenders could be set for a boost if the benchmark interest rate moves up. However, this ETF appears to be less vulnerable to interest rate fluctuations. Moreover, it purports to improve diversification as floating rate loans have a lower correlation to conventional, investment-grade, fixed-income assets.

Shares of this ETF have increased marginally in the year-over-year period. It is considered low to medium risk. This is an ETF worth targeting ahead of proposed interest rate increases.

Why this bank-focused ETF could thrive in this environment

Investors should look to the financial sector in a rate-tightening environment. Meanwhile, higher rates mean that top financial institutions will see a boost to their profit margins. This is especially true as Canada's top banks have ballooned their loan portfolios in recent years.

BMO Equal Weight Banks ETF (TSX:ZEB) offers exposure to the top Canadian bank stocks. Its shares have increased 36% year over year as of early afternoon trading on January 21. Investors should be very familiar with its top holding. It is a rundown of the Big Six Canadian bank stocks, which include **TD Bank**, **Scotiabank**, **Bank of Montreal**, and **Royal Bank**. Investors can trust bank stocks in the event of a rate-tightening cycle.

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Author
aocallaghan