Alert: Bank of Canada Didn’t Raised Interest Rates!

Description

The Bank of Canada has decided *not to raise interest rates* after today’s policy meeting. That means the Bank of Canada’s overnight lending rate is 0.25%. This rate hasn’t been changed since March 2020, when the pandemic first erupted.

In response, Canadian stocks are trading much higher. The TSX 60 Index is up 1.3% in early morning trading.

The policy rate decision has implications for valuations, inflation, and the economic outlook for the rest of the year. Here’s what investors need to know.

What happened?

The nation’s central bank was expected to raise rates this morning. Bay Street analysts and institutional investors all predicted a significant rise in rates and an aggressive pullback of stimulus measures. The odds for a rate hike were as high as 70% yesterday.

Analysts were so confident about this prediction because of economic indicators. Canada’s economy now faces the highest rate of inflation in 30 years. Benchmark interest rates are a critical tool to combat this rise in the cost of living. This is why some analysts were expecting the overnight lending rate to climb to 0.5% or even 0.75% this morning.

However, the Bank of Canada has dashed those expectations. Governor Tiff Macklem and Senior Deputy Governor Carolyn Rogers are expected to attend a press conference at 11 AM to further explain their team’s decision.

So what?

With the rate hike postponed, borrowers in Canada can expect a few more months of record-low borrowing costs. This means businesses can tap into liquidity at cheaper rates. It also means that property investors and homebuyers have a few more months of cheap mortgages.

The stretched valuations of stocks and real estate should expand further in the months ahead. Unfortunately, the cost of living could also be stretched alongside the capital markets. Food, fuel, and shelter are already historically expensive. The inflation rate stands at 4.8% right now. This could rise higher in the months ahead.

Meanwhile, the market's expectations of a rate hike have now moved to the next quarter. Odds for a hike in March are now up to 100%. Analysts see up to five rate hikes over the course of 2022, which could bring the benchmark rate to 1.5%.

Now what?

Predicting interest rates is notoriously difficult. Even though the market is now absolutely certain the rate will rise, economic factors could change that trajectory. A sudden drop in economic activity, a rise in unemployment, or a new variant of the virus could derail the Bank of Canada's projections.

What we know for certain is that inflation is higher and could be difficult to tackle. Investors may need to protect their portfolio by adding exposure to an inflation hedge like **Tourmaline Oil** (TSX:TOU). Canada's largest natural gas supplier is a low-risk bet on rising fuel costs.

Tourmaline stock currently trades at a price-to-earnings ratio of eight. Meanwhile, the rising cost of natural gas has pushed up expectations of free cash flow in 2022. Based on forward estimates, the stock is trading at a price-to-free cash flow ratio of 5.36.

With interest rates at record lows and an economic outlook that's hard to predict, Tourmaline stock could serve as a safe haven.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TOU (Tourmaline Oil Corp.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Energy Stocks
2. Investing

Date
2025/08/21
Date Created
2022/01/26
Author
vraisinghani