Interest Rates Likely to Rise: 3 ETFs to Consider

Description

The Bank of Canada has yet to officially make the announcement, but it is clear that interest rates are finally going to rise in 2022. Inflation rates in the country reached an alarming 4.8% in December 2021, marking the highest they have been in the last three decades. Policy makers will likely introduce new interest rates soon to counteract the inflationary environment.

Unfortunately, rising interest rates will also impact the broader market.

It would be ideal to reevaluate and reposition your investment portfolio to protect your investment returns from the effects of rising interest rates. Today, I will discuss three exchange-traded funds (ETFs) that could be ideal for you to buy and hold as interest rates rise.

BMO Equal Weight Banks ETF

BMO Equal Weight Banks ETF (TSX:ZEB) is a fund designed to provide you with investment returns by replicating the performance of the Solactive Equal Weight Canada Banks Index, before expenses. BMO ZEB ETF invests in and holds securities in the same weighting as they are held in the underlying index.

BMO ZEB ETF focuses on providing you with exposure to publicly-listed Canadian banks, allocating an equal amount of funds to each of the bank stocks instead of taking a market capitalization-weighting approach. At writing, the low-cost fund comes with a 0.28% management expense ratio (MER) and boasts a 2.91% annualized distribution yield.

iShares Canadian Real Return Bond ETF

iShares Canadian Real Return Bond ETF (TSX:XRB) is a fund designed to provide you with investment returns by replicating the performance of the FTSE Canada Real Return Bond Index,before expenses. The fund invests in and holds securities based on their weighting in the underlyingindex.

iShares XRB ETF offers exposure to a significant portfolio of real return bonds, allowing you to generate virtually guaranteed returns through fixed-income assets. The fund could be an ideal investment to generate consistent and inflation-adjusted income. At writing, the low-cost fund comes with a 0.39% MER and boasts a 1.41% annualized distribution yield.

Mackenzie Floating Rate Income ETF

Mackenzie Floating Rate Income ETF (TSX:MFT) is another fund you could consider investing in during an inflationary environment. MFT ETF advertises a greater income potential for investors due to floating rate loans that exceed the returns of traditional fixed-income assets. The fund could see a boost in its profit margins due to rising interest rates while offering lower vulnerability to interest rate fluctuations.

MFT ETF comes with the highest cost among the three ETFs, with an MER of 0.67%. However, it offsets its higher costs through a juicy 4.79% annualized distribution yield that could make it worth the more expensive management fees.

Foolish takeaway

Investing in securities that are likelier to provide you with decent investment returns during high interest rate environments can offer you a degree of protection against the impact it can have on broader markets.

Investing in ETFs designed to protect you from rising interest rates helps you protect your investment returns by mitigating capital risk with diversification.

ZEB ETF, XRB ETF, and MFT ETF could be viable investments to consider for this purpose.

CATEGORY

1. Dividend Stocks
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