2 Top ETFs to Buy for Higher Interest Rates

Description

The Bank of Canada has said it expects that interest rates will need to increase to contend with the inflationary market conditions we're in right now. While it has yet to make an official announcement of when that will happen and by how much it will increase interest rates, we know that it is coming sometime this year.

Preparing your investment portfolio for the impending interest rate hikes right now could be a viable way to make the most of the impact it will have on the broader market. Many high-quality stocks will stand to benefit from dividend hikes.

Investing in exchange-traded funds (ETFs) designed to track such assets can provide you with a hassle-free method to leverage interest rate hikes when they arrive. Today, I will discuss two top ETFs you could buy and hold for this purpose.

Invest in the Big Six Canadian banks

BMO Equal Weight Banks ETF (TSX:ZEB) is a fund that seeks to provide you with investment returns by replicating the performance of the Solactive Equal Weight Canada Banks Index. The fund invests in and holds securities in the same weighting as they are held in the underlying index. The fund's benchmark index provides you with exposure to the Big Six Canadian banks, the largest financial institutions in the country.

The banking sector stands to gain a lot from interest rate hikes because it will offer them a significant improvement in their profit margins. Investing in BMO ZEB ETF means allocating an equal amount of your capital to the top financial institutions in a single investment product. The low-cost fund boasts a management expense ratio (MER) of 0.28%, and it pays its shareholders their dividends each month at an annualized distribution yield of 3.41%.

Invest in the entire financial sector

iShares S&P/TSX Capped Financials Index ETF (TSX:XFN) is another fund that offers you exposure to the financial industry. However, the fund tries to replicate the performance of the S&P/TSX Capped Financials Index, net of expenses, to provide you with investment returns. The fund's benchmark index offers broader exposure to the financial sector.

Rising interest rates will benefit banks and also other parts of the financial sector besides the Big Six banks. XFN ETF's largest holdings include the Big Six. Additionally, the fund invests in other financial sector stocks like **Brookfield Asset Management** and **Manulife Financial** — other publicly listed companies that also stand to benefit from interest rate hikes.

iShares XFN ETF invests in a broader group of equity securities than BMO ZEB ETF. As such, the fund comes with a more expensive 0.61% MER. iShares XFN ETF boasts an annualized distribution yield of 2.95% that it pays out each month.

Foolish takeaway

Interest rate hikes will likely have a negative impact on investment returns for several high-quality stocks trading on the **TSX**. However, not all publicly traded companies will see this as an obstacle. Bank stocks and other financial institutions could increase their profit margins due to higher interest rates.

BMO ZEB ETF and iShares XFN ETF are two funds that invest in equity securities in the financial sector. These two ETFs could be ideal investments if you want a low-cost method to gain exposure to stocks that could benefit from a high-interest-rate environment.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:XFN (iShares S&P/TSX Capped Financials Index ETF)
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