



2 Stocks That Could Benefit From an Interest Rate Hike

Description

The stock market hasn't been very strong through 2022 thus far. A large reason for that being that interest rates are projected to increase significantly this year. Higher interest rates signify that an economy is strong. However, it makes it tougher for companies to grow because they tend to borrow less money when interest rates are inflated. That's why investors have been pushing valuations lower, as they expect growth to slow down.

Last week, the Bank of Canada announced that it had [raised the overnight rate](#) by 0.25%. That brings the rate to 0.5%. Although this increase isn't much to worry about right now, this isn't the only increase expected to happen throughout the year.

With that said, where should investors put their money? Historically, companies in the financial sector have seen a widening in profit margins as interest rates increase. That makes banks and insurance companies very attractive during a time like this. In this article, I'll discuss two stocks that could benefit from an interest rate hike.

Choose one of the Big Five banks

The Canadian banking industry is dominated by a small group of companies. In fact, five banks are head and shoulders above their peers in the country. The Big Five, as they're called, have managed to establish very formidable moats over the past century. This makes it very difficult for smaller competitors to displace the industry leaders. If there's one characteristic that investors should be looking for in a stock, it's this sort of market dominance.

Of the Big Five, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is my top pick. What interests me about this company is its international focus. In fact, with more than 2,000 branches and offices across 50 countries, it's Canada's most international bank. This company also has a very large presence in the Pacific Alliance. That's a region that economists are projecting will grow at a faster rate than the G7 in the coming years.

Bank of Nova Scotia is also an excellent [dividend payer](#). Since the company first distributed a dividend

in 1833, it has never missed a payment. That represents a 189-year dividend payment streak. The company is also listed as a Canadian Dividend Aristocrat, after having increased its distribution for over a decade. With a forward dividend yield of 4.34%, the Bank of Nova Scotia could provide investors with a solid source of passive income.

This insurance company should find a home in your portfolio

As stated previously, insurance companies are poised to benefit in a high-interest rate economy. When it comes to insurance companies in Canada, **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) stands at the top of the industry. The company operates a portfolio with more than \$1 trillion of assets under management. That makes it the largest insurance company in Canada and in the top 30 worldwide.

Like Bank of Nova Scotia, Manulife is listed as a Canadian Dividend Aristocrat. It has managed to increase its dividend in each of the past seven years. Although that streak is a bit shorter than that of Bank of Nova Scotia, Manulife does offer a more attractive dividend yield (5.33%). So far this year, Manulife stock has gained about 2%.

CATEGORY

1. Bank Stocks
2. Investing

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2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:MFC (Manulife Financial Corporation)

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