2 Financial Sector ETFs to Buy and Hold as Interest Rates Rise

Description

Interest rates are on the rise. To combat high inflation, central banks in Canada and the U.S. recently raised their policy rates, with both going from 0.25% to 0.50%. At least another four rate hikes are anticipated throughout 2022, in an attempt to bring inflation back down to a 2% target.

A rising rate environment does two things. Firstly, bond yields will increase, which causes their prices to decrease as the two have an inverse relationship. When it comes to stocks, overvalued pandemic-era growth and tech sector stocks will likely face even stronger headwinds moving forward.

However, not all market sectors are affected badly by rising interest rates. Certain ones, like the financials sector, have historically shown improved profitability in a rising interest rate environment. In this situation, they can charge higher interest rates on loans, which increases their revenue and profitability.

The Canadian financial sector

Investors looking to buy the Canadian financials sector should consider **iShares S&P/TSX Capped Financials Index ETF (TSX:XFN)**. This ETF provides targeted exposure to 28 Canadian financial companies, including **Royal Bank, Toronto Dominion Bank, Brookfield Asset Management, Manulife**, and **Sun Life.**

Being a thematic ETF, XFN is rather expensive, with a management expense ratio (MER) of 0.61%. Investors with a large enough portfolio could consider just buying the top 10 holdings and re-balancing them manually. However, for hands off investors or those with a smaller portfolio, XFN is likely a better choice.

The American financial sector

If you're investing in an RRSP (to save on the 15% foreign withholding tax on dividends) and have a cheap way of converting Canadian dollars to U.S. dollars (such as Norbert's Gambit), a USDdenominated ETF might be a better pick. If this is the case, you can buy **Vanguard Financials ETF** (NYSE:VFH) for a cheap 0.10% MER.

VFH seeks to track the performance of a benchmark index that measures the investment return of stocks in the U.S. financials sector. Notable holdings include **JP Morgan Chase, Berkshire Hathaway, Bank of America, Wells Fargo, Morgan Stanley, BlackRock, American Express**, and **Goldman Sachs.**

The Foolish takeaway

Tilting your portfolio toward the financials sector using an exchange-traded fund (ETF) could be a good defensive play in a rising rate environment.

If managing a portfolio of stocks and keeping up with research seems tedious and time consuming to you, an ETF might be the way to go. It requires less capital and saves you the need to manually re-balance holdings.

If you plan on doing this, it's a good idea to keep the allocation small among your overall portfolio to mitigate concentration risk. Over the long run, having a diversified, balanced portfolio is still best.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:VFH (Vanguard World Fund - Vanguard Financials ETF)
2. TSX:XFN (iShares S&P/TSX Capped Financials Index ETF)

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. jguest
2. tdong

Category

1. Bank Stocks

2. Investing

Date
2025/08/24
Date Created
2022/03/18
Author
tdong