



7 Rate Hikes by Year End? Borrowers Beware

Description

Equifax reports fewer new mortgages in Q4 2021 or before the initial rate hike by the Bank of Canada (BoC) early this month. However, the agency also reveals the continuing increase in consumer debt. With inflation and [home prices](#) rising at a rapid pace, the central bank might take a more aggressive step in April 2022.

The financial markets are pricing an equivalent of three 25-basis-point increases through the Fed's meeting in June 2022. A total of at least seven hikes by year-end looms as well. But for **CIBC**, BoC should hold off a double-dose increase next month. The bank's fixed-income team recommends a 50-basis-point increase mid-year.

Ian Pollick, CIBC managing director and head of Fixed Income, Currency & Commodity Strategy, said it wouldn't be ideal for the central bank to raise rates by a full half-percent at the April meeting. He cited some clogs in the financial system that needs to be cleared.

Impact on mortgage borrowers

Prospective [homebuyers should evaluate their options](#) carefully in wake of the rate-hike cycle. Loans, credit lines, and mortgages become more expensive with significant increases in borrowing costs. If home prices remain high, down payments will likewise be high.

Mackenzie Investments forecast mortgage rates (variable and fixed) to top 3% at the end of 2022. The impact on Canadian homeowners is higher debt-servicing costs, which could rise to unprecedented levels. Moreover, higher rates will drain liquidity from homeowners with outstanding or existing mortgages.

On the investment front, Canada's primary stock market is up 3.56% year to date on the strength of the energy (+37%) and materials (+19.21%) sectors. However, if you're looking for [income streams](#) and capital growth, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Mogo** ([TSX:MOGO](#))([NASDAQ:MOGO](#)) are an ideal combo.

Recurring income stream

Canada's second-largest bank will soon have access to one of the fastest-growing regions in the United States. After Q2 2021, TD already announced the desire to use its excess common equity tier one (CET1) capital for M&A, particularly across the border.

On February 28, 2022, TD announced the planned purchase of First Horizon Corp for US\$13.4 billion. The premier regional bank should accelerate TD's long-term growth strategy in America. But with or without the acquisition, the big bank stock is a reliable recurring income source owing to its 165-year dividend track record. At \$101.97 per share, the dividend yield is 3.49%.

Capital growth

Mogo is cheap with high-growth potential in 2022. The \$283 million financial technology company provides simple digital solutions to help Canadians improve and better manage their financial health. Market analysts recommend a buy rating and forecast the current share price of \$3.66 to climb 105% to \$7.50 in 12 months.

The net loss in Q4 2021 widened to \$29.6 million from \$13.4 million in 2020 due a \$22.0 million non-cash loss on the revaluation of Mogo's derivative purchase warrants in Coinsquare. However, the \$70 million revenue for the quarter was a record. Also, subscription and services revenue increased 135% versus the same quarter in 2020.

Borrowers beware

Multiple rate hikes are coming until 2023. Canadians intending to borrow should beware. Bill Schwartz, Wealthspire Advisors' managing director, said, "All of those things you borrow money to buy will cost more."

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