Ready or Not: Rate Hikes Are Coming. Here's How to Play Them

Description

Interest rate hikes are bad news for stocks, especially those that are growth-focused with no profits and a high price-to-revenue multiple. Indeed, the tech selloff continued again on Monday's session of trade, which was likely heavily induced by yet another uptick in U.S. rates.

Amid increased hawkish sentiment from the Fed and Bank of Canada, it seems as though rates are bound to creep closer to that 3% mark. With inflation running hot in Canada and the U.S. (it's slightly hotter south of the border at almost 8%), central banks are ready to fight higher prices with higher rates, even if it means sparking some sort of 1970s-style recession. Yes, a soft landing would be desirable, but central banks don't have much choice at this juncture if they're to put that dreaded inflation genie back in the bottle for good.

Rate hikes are coming on both sides of the border: Is your TFSA prepared?

With investors fearing rapid-fire rate hikes up ahead, with a 50-bps hike likely in the next Fed meeting, I think that some are forgetting that normalized rates could lie far lower than where they are today. If, in fact, inflation does peak at around 8% in the U.S., perhaps the Fed doesn't need to put its foot on the pedal nearly as hard.

In any case, geopolitical tensions and continued supply-chain disruptions from COVID-19 are not helping the cause. Regardless, I think the ceiling in rates could be had at around 3% and a plunge towards 2.5% or even 2% could be in the cards if the current slate of issues come to some resolution this year.

Two months into Russia's invasion of Ukraine, it seems like nobody is expecting a peaceful resolution anytime soon. In any case, the Fed seems to be no friend of investors, as stocks begin sinking again, with tech leading the downward charge yet again.

In this piece, we'll have a look at one Canadian stock that I think can finish the year in the green, even if broader markets end deep in the red. Think about companies with great balance sheets, low multiples, with the ability to stomach what could be rapid-fire rate hikes over the next 18 months.

National Bank of Canada

National Bank of Canada (TSX:NA) is the sixth-largest bank in the country with a brand-new CEO, Laurent Ferreira. Shares have been surprisingly resilient over the past few years, thanks in part to the excellent management team. As the bank looks to increase its presence in other provinces, while putting its disruptor hat on with the elimination of stock trading commissions, I think it would be a mistake to count the banking underdog out. Over the next 10 years, I believe National Bank can grow to become a mainstay in the Canadian banking scene.

After falling into a correction after its underwhelming quarterly report, the stock goes for just 10 times trailing earnings, making NA stock one of the cheapest names in the Big Six. With a 3.7% dividend yield and a disruptive mindset, I think National Bank is one of the oversold names and ready to steadily push higher as rates rise.

Higher rates are good news for the banks, but with concerns surrounding slowing economic growth and a potential recession in 2023, the banking rally has run out of steam in a big way. I think the whole situation is overblown and would look to give National Bank, the cheapest of the batch, a second look to outdo the TSX in what's shaping up to be a challenging year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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. kduncombe

Category

1. Investing

Date

2025/09/26
Date Created
2022/04/12
Author
joefrenette