4 TSX Financial Stocks Beginners Should Buy as Interest Rates Rise

Description

The Bank of Canada recently raised the policy interest rate by 0.50%. In doing so, they adopted a hawkish stance, as many in the market were anticipating a 0.25% increase instead. As a result, growth stocks and long-duration bonds suffered, leaving even balanced portfolios with losses.

For new investors, getting into the market now can be daunting. With inflation still running high, more rate hikes are likely along the way. The Bank of Canada has to try and engineer a "soft landing" for the economy via its rate hike without plunging it into a full-on recession.

However, investors can still make gains in this situation by buying stocks in sectors that perform well in a rising interest rate environment. In particular, financial sector companies can charge higher interest rates on their loans, which increases their revenue and profitability.

Let's look at four large-cap, blue-chip companies with solid balance sheets, strong cash flows, and profitable margins from the financial sector.

Manulife

Manulife Financial (TSX:MFC)(NYSE:MFC) is one of Canada's largest financial service firms, providing insurance, wealth, and asset management solutions. Valuation wise, MFC has a market cap of $50 billion, forward price-to-earnings ratio of 7.32, and price-to-book ratio of 0.99, which is comparable to sector peers.

From a dividend perspective, MFC has a high yield of 5.25% and a sustainable payout ratio of 33%, currently paying out $1.32 per share. The five-year average dividend yield stands at 4.25%. The company's share price hasn't outperformed the market historically but may do so in a sideways trading market.

Bank of Nova Scotia

Founded in 1832, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is one of Canada's largest Big Six banks, with over 1,300 domestic branches and 3,766 ATMs in operation. Currently, BNS currently has a beta of 0.85, making it slightly less volatile than the overall market.

BNS currently pays a dividend of $4 per share, giving it a forward annual yield of 4.31%. BNS has consistently been a great long-term dividend-growth stock, with a long history of consecutive payments, a five-year average yield of 4.68% and sustainable payout ratio of 46.37%.

SunLife

Sun Life Financial (TSX:SLF)(NYSE:SLF) operates in the same spaces as MFC does, but with a smaller market cap of $38 billion. The company provides term and permanent life insurance as well as personal health, dental, critical illness, long-term care, and disability insurance products.

From a dividend perspective, SLF has a decent yield of 3.99% and a sustainable payout ratio of 33%, currently paying out $2.64 per share. The five-year average dividend yield stands at 3.65%. Like MFC, the company's share price hasn't outperformed the market historically, but this could change.

Bank of Montreal

Founded in 1817, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is another one of Canada's Big Six banks, with around 900 branches and 3,300 ATMs in Canada and the United States. Unlike BNS, BMO is slightly more volatile than the overall market with a beta of 1.16, so it could be considered slightly riskier.

BMO currently pays a dividend of $5.32 per share, giving it a forward annual yield of 3.48%. BMO is also a great long-term dividend-growth stock, with a five-year average yield of 4.01% and sustainable payout ratio of 34.75%. Like many of the bank stocks, BMO has a history of beating earnings expectations.

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2. Stocks for Beginners

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BMO (Bank Of Montreal)
5. TSX:BNS (Bank Of Nova Scotia)
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