Economist: A Small Window to Ease Rate Hikes Is Open

Description

The supersized rate of hike of 0.75% this month is a done deal, although future increases by the Bank of Canada could be less aggressive.

Royce Mendes, Desjardins Securities's managing director and head of macro strategy, told clients, "The Bank of Canada (BOC) is in no position to pivot just yet. Instead, expect policymakers to drop some breadcrumbs about the potential for an earlier pause than markets expect."

Mendes's observation stems from the earlier three-quarter increase by the U.S. Federal Reserve that had a minor fallout. The BOC might not see the need for additional tightening because of signs that the economy could be turning the corner.

Stabilizing home prices

Canada's red-hot real estate market is starting to cool due to the impact of multiple rate hikes. The decline in average house prices is evident in Toronto and Vancouver — the two largest and most expensive markets in the country. Realtors also notes a softening in demand. Kim Reddin, a mortgage broker, said, "The pricing is stabilizing, I think."

James Marjerrison, the president of P.E.I. Real Estate Association, has the same sentiment. He said, "If interest rates continue to rise, it could have a bit more of an effect on housing prices, and we could see prices levelling off or even reduced a little bit." However, Marjerrison believes prospective homebuyers are backing away and waiting to see what happens with rates and prices.

Shaky investment environment

The stock market remains shaky and exceedingly unpredictable lately due to recession fears. Only three of the TSX's 11 primary sectors have gains to show thus far in 2022. Energy stocks have been leading for most part of this year, although the gains are dwindling due to an impending energy crisis.

Investors are at a loss and looking for safety nets to preserve or protect capital. Aside from energy (+26.64%), the consumer staples (+1.90%) and utilities (+0.16%) sectors are in positive territory. If you want to take a defensive position amid the chaos, **Canadian Utilities** (TSX:CU) is the standout choice.

Foundation for dividend growth

Canadian Utilities is the only bona fide Dividend King on the TSX. The utility stock achieved the status due to its remarkable dividend-growth streak of 50 years. Performance-wise, current investors are up 9.74% year to date. At $39.31 per share, you can partake of the hefty 4.61% dividend.

The $10.54 billion diversified and global enterprise invests mostly in regulated assets or operations. Thus, the highly contracted and regulated earnings assure investors of growing dividends for years to come. In Q1 2022, management reported adjusted earnings of $219 million, which represents a 14.7% increase from Q1 2021.

During the quarter, investments in capital projects reached $263 million. About 83% of the total investment went to regulated utilities, while the rest or 17% was for energy infrastructure. The defensive nature of Canadian Utilities should give risk-averse investors peace of mind regardless of the economic environment.

Small opening

Mendes opined that the BOC might begin laying the groundwork to potentially ease up on rate hikes in the future. Because commodity prices, including oil, are falling, there could be a window to ease off rate hikes before a full-blown recession sets in. The opening is small, but it’s still better than none.

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