Will the New Era of High Rates Affect Retirement Planning?

Description

Rising interest rates have implications on people who are saving to have a decent nest egg when they retire. The new era of high interest rates will have more Canadians on the cusp of retirement rethink their strategies.

The Canada Pension Plan (CPP) and Old Age Security (OAS) are incomes for life incomes but not necessarily enough to cover all your financial needs in the sunset years. In today's environment where inflation is rising sharply, retirement planning has never been more crucial.

The Bank of Canada's rate hike campaign in 2022 to bring down inflation shouldn't derail retirement plans. While higher borrowing costs and a potential recession are downsides, prospective retirees should also look at the upsides. If you have stock investments, rebalance your portfolio and shift to sectors or businesses that are less sensitive to interest rate changes.

Safe options

For risk-averse Canadians, a high-interest savings account is a safe place to park money until the situation stabilizes or inflation is contained fully. Low interest rates are over, although interest on savings accounts could see small increases, as the central bank raises its benchmark rates. Fixed-income instruments like bonds could follow a similar route.

Also, bonds serve as counterbalances to stocks when the market is experiencing headwinds during a cycle of high inflation. Government bonds in particular are considered risk-free bonds. As of July 12, 2022, the yield of a 10-year Canadian bond is 3.18%. You can diversify further by investing in exchange-traded funds (ETFs) and mutual funds.

Asset allocation

In a rising interest rate environment, overhauling your strategy or changing course might not be necessary. The key is asset allocation or having a good mix of assets (stocks, bonds, and cash). If you're building retirement wealth through stocks, maintain a long-term view.

Stocks are by nature volatile, although some sectors perform better when interest rates are on the rise. For example, utility stocks can hold their own amid today's complex environment. Since the companies derive revenues from regulated assets, cash flows are consistent, including dividend payouts to shareholders.

Bond-like features

Capital Power (TSX:CPX), a $5.35 billion growth-oriented wholesale power producer in North America, is a solid choice for income investors or retirees. The utility stock is steady as ever owing to its 19.52% year-to-date gain. Its current share price is $45.98, while the dividend yield is a fantastic 4.76%.

The strong financial results to start 2022 reflects in the stock's performance. In Q1 2022, adjusted EBITDA and net income increased 14.9% and 17.8% versus Q1 2021. The adjusted EBITDA for the quarter was Capital Power's highest in a quarter in two years.

Brian Vaasjo, Capital Power's president and CEO, said, "Our financial results in the first quarter of 2022 exceeded management's expectations. We had a strong operating performance from our facilities with a 95% average availability and solid contributions from generally all areas of our business."

Capital Power's dividend-growth streak is eight years and would-be investors can expect growing dividends. Its renewable contracted cash flows are expanding because of 10-year renewable energy agreement with MEGlobal Canada ULC.

Daunting but manageable

The multiple rate hikes in 2022 seem daunting, but it shouldn't set back your future plans. Own the right mix of assets and continue with your journey towards a comfortable retirement.

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