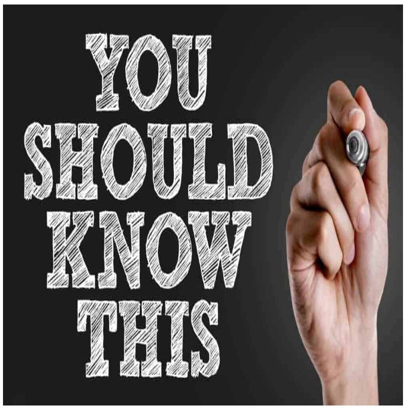

How to Prepare for Another Supersized Rate Hike

Description

Statistics Canada announced last week that the Canadian economy stabilized for the month of May. It was actually good news, with Statistics Canada stating it thought the economy would contract by 0.2%. The bad news? This is likely to lead to another supersized rate hike by the Bank of Canada in September.

Wait, what?

The Bank of Canada surprised economists with the last rate hike, which was expected to rise by 75 basis points but instead rose by 100. This could happen yet again, as the bank tries to get a hold on inflation.

The relation to the economy is that while there wasn't year-over-year growth, there wasn't a contraction either. This means there isn't a slowing of demand, especially considering supply constraints still fuel that demand from the entire economy.

It's not just consumers buying items; more services-producing industries saw growth. While the largest declines were in construction and manufacturing, transportation and warehousing saw the largest gains, Statistics Canada said.

So, while the economy is starting to show signs of slowing down, which could be good news for inflation, it hasn't contracted quite yet. Until this happens, we could continue to see these larger-than-life rate hikes. But we'll find out on Sept. 7.

How to prepare

The best way to fight inflation is to find valuable, blue-chip companies that can stay in your portfolio for decades. The Tax-Free Savings Account (TFSA) is an excellent option; if you *really* need the cash, you can take it out tax free.

Now, value stocks are great, but I would also recommend ones that produce dividends. Luckily, the best blue-chip companies usually do. Furthermore, they offer incredibly high dividend yields that can actually help you fight off inflation!

Think about it. You buy up some value stocks and see prices rebound to where they were about a year ago. Meanwhile, you collect more and more dividends while you wait. By the end of next year, you should be in the black.

Value stocks to pick

So, with a rate hike underway, and inflation rising, you need value stocks that will combine and help you at least break even. Let's say inflation stays the same at 8%, and the Bank of Canada raises the interest rate to 3.5%. That means you'll want to create a total of 11.5% returns to at least break even over the next year.

The safest way to do this is with the Big Six banks, in my opinion. You can get high dividend yields, create solid cash flow, and see returns that will normalize in the next few months. How do I know? Because it's happened every downturn for the last few decades, thanks to provisions for loan losses.

If you want the best dividend for the best price, I would go with **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). It trades at just 9.2 times earnings as of writing and offers a dividend of 5.17%. Shares are down 9.6% year to date as of writing but have started to rebound. So, it may be time to jump in before a climb.

If you make $60,000 and want to create an additional 11.5%, that would mean creating returns of $6,900 in a year. If CIBC returns to 52-week highs, and you take into consideration its dividend, it would mean putting just over $19,000 from your TFSA towards CIBC stock. By the end of next year, you could have returns of $986 from dividends and $5,948 from share returns for a total of $6,934.

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Date
2025/08/16
Date Created
2022/08/02
Author
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