



Interest Rate Hike (Again): How the TSX Is Reacting

Description

On October 26, the Bank of Canada continued its quantitative tightening path by making the sixth consecutive interest rate hike this year. This is one of the fastest interest rate hike cycles ever! It was an increase of 0.50% this time. The overnight interest rate now stands at 3.75%.

This means costlier borrowing for Canadians. The same goes for businesses. Ultimately, a tightening money supply reduces consumer spending and business investments, and, therefore, reduces economic growth. In fact, the United States, which is also experiencing quantitative tightening, has already technically entered a recession. Canada is expected to follow soon. **RBC** predicts as soon as the first quarter of 2023.

On the day of, the TSX actually rose 0.92%. The stock market moving up or down 1-3% in either direction in day is actually normal volatility. Perhaps the stock market and investors have already gotten used to rate hikes. Or it's that many stocks have already fallen to attractive levels. The market may have also expected an interest rate hike of 0.75%. Since it turned out to be only 0.50%, the TSX reacted positively.

It'd be smart for Foolish investors to shop for [undervalued stocks](#) now. One really attractive stock that's super cheap right now is **Brookfield Business Partners** ([TSX:BBU.UN](#)). On Oct. 26, the stock rose 2.41%. The following day the stock followed through 1.59% higher. Indeed, the stock has a beta that's greater than one, suggesting that it's more volatile than the stock market. This also suggests that in a bullish market trend, the stock could deliver greater upside than the market.

In the last 12 months, the stock lost half of its value. Notably, the company completed a stock split on March 15. Accounting for the stock split, the portion of the value that was spun off, the stock has declined about 23% in the last 12 months. Let's take a closer look at the business.

The business

BBU owns and operates businesses that provide essential products and services. It's a business services and industrial company with global operations. It targets to acquire businesses with durable

competitive advantages, low risk of substitution, and stable cash flows. It focuses on creating long-term shareholder value. Specifically, management targets long-term returns of 15-20% on its investments.

Oftentimes, it means selling mature/optimized operations for hefty profits and redeploying the proceeds in quality assets within capital-tight geographies. The capital tightening happening in various markets is the perfect type of environment for BBU to thrive in.

In the last year, the company deployed US\$4.3 billion of capital and generated US\$1.1 billion of proceeds. In today's challenging operating environment, BBU continues to generate greater adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash flow proxy. Since 2010, it has steadily improved its EBITDA margin from 10% to 18%.

For example, just this month, BBU, along with its institutional partners, sold its nuclear technology services operation to a group led by **Cameco** and **Brookfield Renewable Partners** for an enterprise value of about US\$8 billion. The investment, including distributions received throughout, BBU expects a whopping rate of return of 60% on the investment.

BBU has more than 165 investment teams and approximately 90,000 operating employees across North and South America, Europe, the Middle East, and the Asia Pacific to source lucrative investments and improve operations. More than half of its investment teams are outside North America.

The Foolish investor takeaway

It seems the stock market has gotten used to rate hikes. It's an excellent time for investors to shop for value. Brookfield Business is one such stock for patient investors. On a market turnaround, the [cyclical stock](#) could double investors' money from current levels.

The stock trades at a substantial discount of approximately 40% from diversified service providers and high-quality industrials, but it has a free cash flow yield of about 15%, which is three times that of these companies.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BBU (Brookfield Business Partners L.P.)
2. TSX:BBU.UN (Brookfield Business Partners)

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