Soaring Interest Rates: 2 TSX Stocks That Can Play Along (and Even Win)

Description

The interest rates in Canada are going up at an incredible pace. This month, there was an increase of 50 basis points, and the Bank of Canada (BoC) interest rate is now 4.25%. And this may not be the end of it. This may be the final stop for a while now, and it's so far one of the BoC's most substantial bids to control inflation.

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A hike like this can have negative consequences for certain businesses. However, there are several industries that benefit from rising interest rates.

A bank stock

Toronto-Dominion (TSX:TD), which is the second-largest bank in the country, is a first-rate pick when interest rates are high. Banks generally benefit from higher interest rates, and even though almost all Canadian bank stocks can be considered suitable investments, Toronto-Dominion is one of the strongest bets for several reasons.

The first is the bank's international exposure, especially its presence in the U.S., which shields it from local economic pressure (at least partially). Another reason is its capital-appreciation potential, which, in the long term, is comparable to **Royal Bank of Canada** and only slightly lower than **National Bank of Canada,** which has been the best growth stock in the banking sector so far.

The bank is currently trading at a 19.8% discount from its recent peak, and the dividend yield has risen to an attractive 4.4%.

Its dividends are already supported by a stable 37.5% payout ratio, which may become even more attractive, as the financial strength and earnings growth as a consequence of higher interest rates. But we also have to acknowledge the potential downside of high interest rates for the banks — less borrowing.

So, even if the banks can make *more* money from the people they are lending to, when the interest rates are high, there will be less money to be made, because fewer people might borrow.

An insurance stock

There is a visible correlation between the rising interest rates and the profitability of insurance companies. Thus, investing in an insurance giant like **Manulife Financial** (TSX:MFC) when interest rates are high can be an intelligent choice. Manulife is already an attractive stock thanks to its low valuation (price-to-earnings of 6.3) and a juicy 5.5% yield.

Then there are the fundamental strengths of the company. It's one of the world's 10 most prominent life insurance companies, with a strong international presence. The stock has been quite stable in a relatively weak market, and even now, the undervaluation comes from strong financials rather than a slumping stock price.

Foolish takeaway

The two blue-chip stocks are among the leaders in their respective industries. They have proven their mettle and resilience time and time again during a variety of harsh financial conditions. The current state of high interest rates might actually augment their strength against the potential recession we might go through next year.

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