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

Description

The Bank of Canada may or may not press on to raise its policy rate during its first scheduled meeting for the year on January 25, 2023. Even if the central bank hits the pause button, economists and industry experts believe the door remains open for rate hikes.

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Soaring interest rates triggered a market sell-off on the **TSX** in 2022. People moved away from or dumped growth-oriented companies, mainly in the tech sector. If inflation doesn't edge lower, the policymakers might begin a fresh round of rate increases. If it happens, investors need to pick stocks that can play along with it and even come out as winning investments.

Banks usually stand to benefit in such a scenario. However, alternative and non-bank lenders like **goeasy Ltd.** (TSX:GSY) and **Timbercreek Financial** (TSX:TF) could also deliver strong earnings performances during higher interest rate environments.

Record loan growth

goeasy has been operating as a non-prime consumer lender for 31 years. Current investors should be happy with the record 117% loan growth in Q3 2022 versus Q3 2021. Because of the 47% year-over-year increase in loan origination to $641 million, the loan portfolio rose to $219 million.

President and CEO, Jason Mullins, said, "The team delivered another strong quarter, producing record loan growth and stable credit performance. Amidst an uncertain economic backdrop, we continue to employ a disciplined approach to managing credit risk by focusing on the quality of our originations and underwriting standards, which further strengthen the resilience of our portfolio."

While net income in Q3 2022 declined 25.7% to $47.18 million versus Q3 2022, goeasy still clocked 85 consecutive quarters of positive net income. Management expects its consumer loan portfolio to reach approximately $4 billion by year-end 2025.

Performance-wise, the stock had a negative return of 38.7% in 2022. As of this writing, the share price is $105.92. Note that this $1.75 billion alternative lender has been paying dividends for 18 years and raised the yield for eight consecutive years. The dividend yield is a decent 3.42%, which can compensate for the depressed price in the meantime.

Conservative lending program

Timbercreek Financial provides short-duration structured financing solutions (less than five years) to real estate owners and commercial real estate investors. The $612.2 million company facilitates transactions faster than banks and other financial institutions.

Moreover, the loan program is conservative as the company lends only against income-producing real estate (multi-residential, retail, and office properties). Timbercreek's important risk management strategy is its emphasis on cash-flowing properties, and its financial performance hinges on net income generated from net mortgage investments.

In the nine months that ended September 30, 2022, net income increased 5.6% year over year to $41 million on net mortgage investments of $1.3 billion. Since most loans are floating rates, management said interest rate increases have a net positive benefit to the company.

Timbercreek stock declined by 19.6% last year and trades at $7.11 per share today. However, income investors will love the stock for its mouth-watering 9.7% dividend.

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Stable business performance

Financial stocks, primarily banks, tend to do well in an elevated inflation environment. However, goeasy and Timbercreek have displayed business stability amidst the aggressive rate hike cycles.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:TF (Timbercreek Financial Corporation)

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