

Rising U.S. Interest Rates: Opportunity or Trap for Canadian Dividend Investors?

Description

The announcement of another stellar jobs-creation number in the U.S. last Friday provided more impetus to expectations that the Federal Reserve will start to increase interest rates in the not too distant future.

This contributed to interest-sensitive high yielding U.S. equities, such as the utilities and real estate investment trusts coming under considerable pressure, extending losses that have already been accumulating over the preceding few weeks.

Despite the totally different outlook for Canadian interest rates, where the Central Bank very recently cut interest rates, longer-dated interest rates also jumped with the Canadian Government 10-year bond yield moving from a recent low of 1.30% to 1.58%.

In sympathy, a number of the Canadian equity income favourites also lost a good deal of value. At the broader index level, the S&P TSX Dividend Aristocrats gave up 4% since mid-February, while dividend favourites such as **BCE Inc** ([TSX:BCE](#))([NYSE:BCE](#)), **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)), **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)), **Choice Properties Real Estate Investment Trust** ([TSX:CHP.UN](#)), and **Fortis Inc** ([TSX:FTS](#)) declined between 6% and 9% over the past few weeks.

While it always disconcerting to see one's investments lose value, the situation for Canadian income-seeking investors has not changed materially. While 10-year Government bonds still yield well below 2% and shorter-dated bank deposits around 1%, investors in a high quality equity dividend portfolio can expect to receive a yield of over 4% with growth well ahead of inflation in 2015 and 2016.

Some investors would feel uncomfortable with the risk of capital loss, which may negate the attractive yield. However, dividend paying equities have a track record of inflation and overall market-beating returns over the long term. Based on data from the U.S., dividend paying stocks have returned 10.25% per year for the past 87 years, comfortably beating non-dividend paying stocks, government bonds, inflation, and cash.

High quality U.S and Canadian dividend-paying stocks have performed well over the past few years in the low interest rate environment and some have become overvalued. Nevertheless, high quality dividend stocks with attractive yields are becoming cheaper and almost certainly represent much better value than government bonds.

The stocks identified in the table below operate in different but relatively stable economic sectors and have great dividend-payment track records, solid balance sheets, excellent cash flows, reasonable growth prospects, and when combined, produce a portfolio with an attractive yield and low volatility.

Company	2015 Expected Dividend Yield*	2016 Expected Dividend Growth*	Dividen
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Telus Corporation	3.9%	8%	Quarterly
BCE Inc	4.8%	5%	Quarterly
Toronto-Dominion Bank	3.7%	8%	Quarterly
TransCanada Corporation	3.8%	8%	Quarterly
Fortis Inc	3.5%	6%	Quarterly
North West Company	4.6%	5%	Quarterly
RioCan	5.1%	1%	Monthly
Choice Properties Real Estate Investment Trust	5.7%	2%	Monthly
Overall Portfolio	4.4%	5.4%	

Source: Thomson Reuters

Opportunities created by the fear-induced sell off

A portfolio consisting of the stocks listed in the table has a high probability of delivering a tax advantaged 4.4% yield in 2015 with consistent growth over the next few years. Investors should take advantage of opportunities created in the Canadian market by the sell off in U.S. high yield equity market.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TRP (Tc Energy)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:FTS (Fortis Inc.)
7. TSX:NWC (The North West Company Inc.)
8. TSX:REI.UN (RioCan Real Estate Investment Trust)
9. TSX:T (TELUS)
10. TSX:TD (The Toronto-Dominion Bank)
11. TSX:TRP (TC Energy Corporation)

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