



This Company Is a Great Way to Bet on Interest Rates

Description

This period of record low interest rates has been bullish for nearly every asset type. Investors have grown to expect lower interest rates over time. With interest rates now near zero in most developed economies, questions remain around the future trajectory of interest rates from here.

For those who believe we may have entered a period of permanently low interest rates, I've got a great pick.

Alternative assets could take off

Canada's preeminent alternative asset manager **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) could take off if we see interest rates remain near zero or turn negative. The types of assets held by Brookfield exhibit fixed-income qualities. Therefore, [these assets become more valuable as interest rates rise](#). Real estate, for example, tends to increase in value when interest rates decline as a function of the declining debt-servicing costs of these assets.

In addition to the fact that asset values should continue to increase in such an environment, Brookfield could also benefit from extraneous economic factors that tend to lower interest rates. Lower interest rates generally improve overall economic conditions for Brookfield counterparts. This would lower risks around deferred or defaulted payments.

The cash flows generated by Brookfield Asset Management are driven by downstream transactions at the company's subsidiary level. Should interest rates stay low and stimulus measures remain accommodative, Brookfield's cash flow stability is likely to remain in place.

Overall equity market strength

Because of low interest rates, the field offered by most low-risk, fixed-income securities is generally less attractive. The broad search for yield has led many investors to equities, where the risk-adjusted returns of equities as compared to fixed-income assets have been juiced up by low interest rates.

Overall capital inflows into equities broadly is bullish for equities and particularly large-cap stocks like Brookfield that generate institutional interest.

Capital inflows remain strong

Capital inflows into alternative assets alone in Canada have been in the tens of billions of dollars each year. Because of its size and prominence in the Canadian market, Brookfield Asset Management has sucked up a large portion of these inflows.

I expect the taps to remain open and believe Brookfield will be a true beneficiary of this expected lower-for-much-longer interest rate scenario.

Cash is king

Brookfield's cash hoard is impressive. Given the potential for more market instability moving forward, I think Brookfield could benefit from potentially increasingly attractive alternative asset prices over the medium term.

Brookfield is one of the few companies I think can not only survive a great deal more volatility but could potentially thrive in such an environment.

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Author

chrismacdonald

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