



## Is the Party Over for Canadian Banks?

### Description

Canada's Big Five banks have enjoyed a fantastic run in the last few years, as rebounding equity markets have driven growth in wealth-management fees and capital markets activities. At the same time, Canadian retail customers have piled on record levels of personal debt.

Recent developments indicate the earnings party might be over. This shouldn't be a surprise to investors, and the banks knew this day was coming. They actually gave investors a heads up during the last round of earnings reports, but I'll get to that in a moment.

**The Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) announced November 4 that it is taking before-tax charges of \$451 million as it cuts 1,500 jobs and closes 120 branches in an effort to reduce costs.

The interesting thing about the big announcement is that two-thirds of the jobs will be cut in Canada. A lot of attention is being given by the media to troubles in the company's international operations, but investors should look closely at the fine print.

Some of the Canadian issues are tied to retail bankruptcy charges and changes related to the way the bank estimates losses on Canadian loans. It is unlikely that The Bank of Nova Scotia is unique in this situation, and now that the cat is out of the bag, investors shouldn't be surprised if the other banks follow suit with restructuring announcements.

Some of the troubles have been known for a while. The Bank of Nova Scotia is getting hit hard in the Caribbean where **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) and **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)) have already disclosed losses.

Did anyone see this coming?

Most of the Canadian banks reported record earnings for the quarter ended July 31, 2014. They also told analysts that things were likely to be more challenging moving forward.

Royal Bank of Canada had a blowout quarter in its capital markets division. David McKay, Royal Bank of Canada's new CEO, said the following about the Q3 capital markets numbers: "Clearly the segment

benefitted from a number of factors which are unlikely to be repeated to the same degree.”

The Bank of Nova Scotia announced on the eve of Halloween that it is cutting staff in its capital markets offices in New York, Toronto, and London.

**Toronto-Dominion Bank** ([TSX: TD](#)) ([NYSE: TD](#)) has been on a buying spree in the U.S. but that appears to be coming to an end. Bharat Masrani, the next CEO of TD, recently said the company now plans to focus on organic growth rather than expanding through acquisitions.

The problem for TD is that the U.S. market is extremely competitive and the company is getting a much lower return on equity in the U.S. than it is in the Canadian market.

On the Q3 2014 conference call TD’s Masrani told analysts: “We continue to expect modest earnings growth in our U.S. Retail segment for fiscal 2014 as tailwinds from credit dissipate and heightened competition for assets continues to pressure loan margins. While our net interest margin was stable this quarter, this was largely due to accretion. If this trend recedes, the downward pressure on underlying margins will be more visible.”

**Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)) is facing some of the same U.S. competition challenges as Toronto-Dominion, but its focus is on the U.S. midwest. This is partly a bet on manufacturing growth and there are risks that the U.S. dollar’s surge to multi-year highs against a number of currencies might hurt manufacturers.

### What should investors do?

With Canadian consumers sitting on so much retail debt, investors have to wonder how much more the banks can squeeze out of this market. Having said that, Canadian banks are solid long-term investments and they have the capability to protect earnings by slashing expenses when revenues drop.

If you are considering buying the banks, you might want to wait until all the skeletons come out of the closets.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
7. TSX:BNS (Bank Of Nova Scotia)
8. TSX:CM (Canadian Imperial Bank of Commerce)

9. TSX:RY (Royal Bank of Canada)
10. TSX:TD (The Toronto-Dominion Bank)

**Category**

1. Bank Stocks
2. Investing

**Date**

2025/08/27

**Date Created**

2014/11/05

**Author**

aswalker

default watermark

default watermark