



Are Financial Stocks Due for a Correction?

Description

On Thursday, stocks across the broad financial sector in both Canada and the United States declined, selling off after President Trump reversed his position on a number of key election promises, including the decision to support the Export-Import bank. There's also uncertainty as to whether he will appoint Fed Chair Janet Yellen to another term, and he announced that he believes China is not a currency manipulator, which is in contrast to comments made previously.

One of the most important announcements for banks President Trump made re-affirmed his stance on the U.S. dollar; he said in an interview with the *Wall Street Journal* that the dollar is "getting too strong," and he prefers lower interest rates from the Federal Reserve.

Banks' earnings are widely affected by the strength of global currencies relative to each other as well as interest rates and speculation of where interest rates will move in the coming quarters. These comments have sparked traders to lock in profits and take money off the table from this sector, shaking up markets around the world.

These reversals, along with growing geopolitical tensions in areas such as Syria and North Korea, have prompted the market to reconsider the momentum trade on financials. Canada's largest banks, including **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) declined by approximately 1% on Thursday on the news.

Among the financial stocks that took the largest hit were niche lenders in the non-prime lending category, including **Home Capital Group Inc.** ([TSX:HCG](#)) and **Equitable Group Inc.** ([TSX:EQB](#)). The sell-off for these lenders has been much harsher of late due to a number of scandals and investor scrutiny over the non-prime lenders' management and operations.

Bottom line

The wide-spread Trump Rally for financials began following the election due to specific comments President Trump made during his campaign, suggesting that large amounts of fiscal stimulus and tax

reform would boost corporate earnings and lead to a more positive outlook for financial stocks. These campaign promises are now being brought into question, and with the news of President Trump looking to fight for a weaker U.S. dollar and for lower Federal Reserve rates, banks around the world may continue to experience increased volatility for some time.

On Wednesday, the financial sector turned negative for the first time this year, and all indications are that the sell-off may be far from over.

Stay Foolish, my friends.

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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:HCG (Home Capital Group)
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