Are Bank Stocks Safe Bets to Outperform the TSX?

Description

Bank stocks have a reputation for being stable and secure investments that you should be able to generate decent returns from. I am going to look at three of the biggest banks in Canada to see if that is true, and how bank stocks have done in comparison to the market.

10-year performance

In the past 10 years, the TSX has yielded returns of just 14%. It was outperformed by all the major bank stocks during this time.

Specifically, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) produced returns of 87% in the last decade, followed by **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which saw its share price increase by 72% over the same period.

However, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) barely beat the market with its share price increasing by just over 16%. One reason for the discrepancy between the bank returns could be the CIBC's higher exposure to the Canadian market.

TD, which did the best of the three banks, has a greater presence outside Canada and has many locations in the United States.

Five-year returns

If we shorten the range of time to the last five years, then the three bank stocks have once again outperformed the TSX's 23% returns.

This time, Royal Bank leads the way with its share price increasing by over 70%, followed by TD's stock appreciating 56%, and CIBC again yielding the lowest return of just 41%.

Returns in the past year

The last year has not been particularly strong, and the TSX has barely been positive with returns of just over 1%. The banks stocks outperformed the TSX again during this period, but the gaps were not as wide as Royal Bank produced 15% returns, TD increased 11%, and CIBC yielded 6%.

If we shorten the window to just this calendar year, during which the TSX has been down by 2%, then the only bank to outperform the market is Royal Bank with a 1% return. CIBC has returned a loss of over 2% so far this year, and TD has been the worst performing for 2017 with a loss of almost 4%.

Summary

We can see that, typically, the banks have outperformed the TSX over all time periods; however, CIBC has typically been the poorest performing of the three banks here.

Perhaps it is unsurprising that TD has done the worst in 2017 since it has been a tumultuous year south of the border, and TD has the largest exposure there.

CIBC might see the most upside going forward

With CIBC making headway into the U.S. market with its recent acquisition of PrivateBancorp, it will likely see less of a correlation with the TSX's returns and have more impact from the U.S. economy.

The gap between the returns of the CIBC and the other two banks is likely to shrink as a result of its reduced dependence on the Canadian economy.

Dividends

Another consideration when selecting a bank to invest in could be the dividends offered. Currently, both Royal Bank and TD offer similar dividend yields of approximately 3.7%, while CIBC's payout of 4.7% might make it an attractive option for dividend investors.

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2. Dividend Stocks
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