
# Canadian Banks Are Bouncing Back: Time to Buy?

## Description

Investors stayed clear of Canadian banking stocks this year, despite a superior performance by the economy that surprised many analysts.

Most of this year, banking stocks remained weak on concerns that overheated housing markets in the nation's largest cities will erode profitability, and in the possible scenario of a sharp decline in home prices, they'll suffer even more.



But it seems that this doomsday scenario has run its course, and we've seen a rebound in banking stocks for the past month.

**Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock has taken the lead, rising over 7%, while the hardest-hit **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has reversed the declining trend and now is up by ~2% at the time of writing.

Should we expect a strong rally in Canadian banking stocks going forward?

Barring any geopolitical setbacks, such as a nasty turn in U.S.-North Korean relations, Canadian banks are in a good position to stage a strong comeback in the next couple of months.

Investors have so far ignored all of the good news that was associated with the strengthening Canadian economy.

Technically speaking, banks should have rallied when the Bank of Canada raised interest rates twice in the past two months, as the economy has been firing on all cylinders. Higher interest rates mean more interest-based income for lenders and more lending opportunities to businesses.

But what kept investors on the sidelines during this period was the fear of a housing market collapse after the prices started to soften up in Toronto this spring. A crash of housing market, which short-sellers were counting on after the near collapse of **Home Capital Group Inc.** this spring, didn't play out.

Now that all these worries are out of the way, Canadian financial stocks should outperform strongly rest of the year.

**Investor takeaway**

I think the timing is good to pick some nice yields in the financial space for income investors. CIBC stock, after falling about ~7% this year, offers a dividend yield of 4.8%. The bank has been hit the hardest during this weakness because it has the most exposure to the Canadian housing market. But its balance sheet and future growth prospects are all intact, especially when we're in for a strong growth cycle.

Similarly, **Bank of Montreal** (TSX:BMO)(NYSE:BMO), Canada's fourth-largest bank, has slid ~6% in the past six months with the dividend yield of 3.9%. The bank has a great dividend track record, and investors should expect regular payout hikes from this lender.

Investors can benefit from these opportunities to earn stable dividend income by buying some undervalued dividend stocks. I see only a way up from these levels.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
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2. NYSE:CM (Canadian Imperial Bank of Commerce)
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