3 Reasons Bank Stocks Can Soar in the Last Months of 2017

Description

Canadian bank stocks went on a tear in September after experiencing declines broadly on the S&P/TSX Index since early spring. In another article, I laid out reasons to be cautious when it came to Canadian bank stocks. Let's look at some reasons for investors to eschew caution for optimism when it comes to the potential for bank shares to reach all-time highs heading into 2018.

Record earnings have increased investor sentiment

August saw impressive earnings from the Canadian banks. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) released its third-quarter results on August 23 and saw after-tax net income up 5%, with strong performance in wealth management, personal and commercial banking, as well as insurance. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) posted third-quarter net income of $2.1 billion compared to $1.9 billion in Q3 2016. Bank of Nova Scotia hiked its dividend by 7% in response to positive earnings.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) posted the best earnings beat of all the banks on August 31. Profit jumped 17%, and U.S. and Canadian retail sectors saw an increase of 14%.

Third-quarter results released by the banks beat back concerns that the first interest rate hike by the Bank of Canada and a slumping housing market would hurt the bottom lines.

Optimism regarding the housing market

House sales and prices are expected to enter a period of deceleration in the next few years, but analysts continue to be optimistic about the largest Canadian cities. Real estate industry experts also expect a continued bounce back in the fall of 2017. In spite of two interest rate hikes and a record debt-to-income ratio, the quality of underwriting from Canadian banks is giving strength to analysts' outlook.

Royal Bank has one of the largest mortgage exposures of the Canadian banks. New mortgage regulations, set to be introduced by the OSFI, are expected to slow growth in mortgage books for banks and alternative lenders. However, higher retention and rising interest rates have the potential to stay a decline in profitability.

Strong economic growth

Perhaps the biggest driver of the rise in the S&P/TSX Index and the Canadian banks has been the strength shown by the broader Canadian economy. The Organization for Economic Co-operation (OECD) released a report that predicted Canadian economic growth to be the best in the G7 in 2017. The OECD raised its growth forecast for the Canadian economy to 3.2% from 2.8% earlier this year. The outlook for 2018 remains at 2.3%.

Shares of TD Bank are up 7% as of close on September 26 since it released its third-quarter results, and it has almost totally made up the losses it incurred since the CBC story in March caused the stock to plummet. RBC stock is up 2.5% since close on August 31 and still has a ways to go before challenging the highs seen in February and March. Bank of Nova Scotia has climbed close to 2% since the beginning of the September.

In addition to the growth potential Canadian bank stocks possess as 2017 winds down, investors on the lookout for attractive income can take advantage of the dividends offered.

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