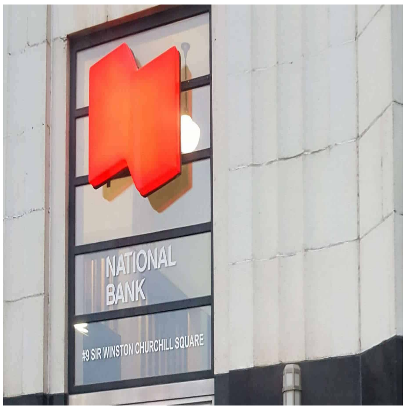

Will a Slowing Economy Cool Off Canadian Bank Stocks?

Description

Statistics Canada released July GDP data in late September that marked an end to eight consecutive months of growth for the Canadian economy. Experts and analysts had warned about complacency as economic growth had not been achieved over broad sections of the Canadian economy. In this report, the decline in real estate, financial services, and other sectors was able to bring down growth.

The S&P/TSX Index surged 3.5% month over month as of close on October 4. Canadian bank stocks have been among the premier gainers after experiencing a cooling period in the spring and summer months.

Shares of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have jumped 5.8% in the same period. The stock reached an all-time high of $71.85 in early October and has seemingly bounced back from the CBC report in March that forced the stock down for much of 2017. Impressive third-quarter earnings and an improving economy have given TD Bank the spark it needed.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock has climbed 3.8% in the same period. It has drawn closer to its all-time high of $82.30 that it reached in late February. Bank of Nova Scotia also reported solid earnings on August 29; it posted net income of $2.1 billion, up from $1.9 billion in Q3 2016. The bank also hiked its dividend by 7% from the previous year to $0.79 per share — a 3.9% yield.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) was up 5.7% month over month, and **National Bank of Canada** (TSX:NA) climbed 5.6% and posted an all-time high of $60.66 in early October. Both banks posted solid earnings in the third quarter.

Will weaker economic numbers hurt momentum?

Canadian bank stocks suffered after gorging on the so-called Trump Trade after the election concluded on November 8, 2016. Stocks faced headwinds when the crisis at **Home Capital Group Inc.** caused concerns that Canada could be wrestling with its own version of the 2007-2008 U.S. crisis.

Home Capital was ultimately bailed out with a combination of public and private help. After a period of sharp declines following new regulations from the Ontario government, Toronto housing rebounded in September, delivering its first increase since the measures were introduced.

The Canadian economy beat expectations during these months, but rising interest rates have remained a concern for investors. Canadians are wrestling with record debt levels, and a financial shock could bring about a domino effect that would spread to the broader economy.

However, the Bank of Canada has been clear in comments made recently and when it chose to raise rates on September 6: it will be taking a cautious approach. This means that rates will likely move very gradually and remain at the historically low levels seen post-2008. Governor Stephen Poloz has not ruled out rates dropping once again if conditions permit.

Impressive earnings and the promise of a dovish approach to rates from the Bank of Canada have been a catalyst for a surge in Canadian bank stocks. Even with economic growth slowing, I expect bank stocks to respond well to these favourable conditions in the final months of 2017.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CM (Canadian Imperial Bank of Commerce)
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Date
2025/09/13
Date Created
2017/10/09
Author
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