

## 3 Reasons Bank Stocks Have Plenty of Room to Run in 2018

### Description

Canadian banks are concluding fiscal 2017 on a high note, as fourth-quarter earnings capped off a big year. A year that produced successive record earnings for many of Canada's largest banks has some analysts worried about a plateau in growth heading into 2018. In early December, I'd [focused](#) on three bank stocks to add or drop after fourth-quarter earnings.

Today, let's look at three reasons investors should remain optimistic about bank stocks in 2018.

#### U.S. tax reform completed

The Republican-controlled House and Senate passed through tax legislation that was subsequently signed into law by President Trump before the Christmas break. The reform will see corporate taxes slashed from 35% to 21%, which is estimated to raise corporate revenues by as much as \$6 trillion over the next decade. In a recent article, I'd [covered](#) why **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) was in a fantastic position to see a windfall after recently becoming a top 10 retail bank in the U.S.

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) saw its profit from its retail U.S. banking division rise 2.3% year over year to \$222 million. This was with a weaker U.S. dollar pushing down profits in Canadian currency to 2.8%. Overall, BMO reported net earnings of \$973 million in the fourth quarter — down 8.8% from the prior year.

#### Bank of Canada easing up on rate hikes

Canadian GDP came in flat as Statistics Canada released its October 2017 report on December 22. These numbers appear to suggest that fourth-quarter GDP may come in below estimations. The Bank of Canada elected to hold rates steady in its most recent meeting. It cited ongoing NAFTA negotiations, record high Canadian household debt, and new mortgage rules set to trigger in January as reasons for caution.

BMO chief economist Douglas Porter predicted that the central bank may not move until March after the original meeting. **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) released a note after the October GDP report in which it projected that the Bank of Canada may not make a rate move until April or perhaps later.

#### A rebound in energy and real estate

Canadian bank stocks stagnated in the late spring and early summer of 2017, even as the broader Canadian economy showed strength in the first two quarters. The spot price of oil fell below the \$45 mark, its lowest point since early 2016. However, oil has since rallied into the final weeks of 2017 and hit the \$60 mark on December 26 for the first time since June 2015. This should alleviate anxiety for banks that were concerned about oil path loans in the beginning of 2017.

Worries over real estate also hurt investor sentiment in the spring and summer after the crisis at **Home Capital Group Inc.** threatened to spill into the entire real estate market. Ontario responded by implementing a 15% foreign buyers' tax among a plethora of other rules designed to cool the hot market. Housing prices subsequently dropped during the summer months until stabilizing in September.

The new stress test for uninsured buyers is expected to cause some turbulence in housing markets to kick off 2018. Industry experts are projecting the market to fully stabilize midway through 2018 and even make gains in the latter half of the year. In any case, major banks have expressed confidence in an ability to sustain a steep drop in housing prices.

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## TICKERS GLOBAL

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
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4. TSX:BMO (Bank Of Montreal)
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## Author

aocallaghan

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