



## The Latest Note From Canadian Imperial Bank of Commerce Is Encouraging for These Stocks

### Description

In late February, I'd [discussed a report](#) from the Bank of International Settlements (BIS) that came out in late 2017. The report warned that conditions in the final weeks of 2017 and heading into this year mirrored the situation leading into 2008 in some aspects. Chief among them was the ballooning of financial bubbles and risky investments that failed to dissipate, even with central banks raising interest rates and promising to shrink balance sheets.

On March 22, the three major indexes in the United States suffered steep declines in the midst of new tariffs announced by President Donald Trump and yet another White House shakeup. The Federal Reserve also voted unanimously to raise the benchmark interest rate in the U.S. by 0.25% on March 21. The S&P/TSX Index dropped 275 points on the same day, and indexes in Europe and Asia followed suit in registered sharp declines.

A report in March from the BIS raised concerns over Canada's credit-to-GDP gap and its total debt-service ratio. Both indicators were coded red, which, according to the BIS, raised the prospect of a banking crisis going forward.

Concerns over domestic growth may lead some investors to gravitate toward financial services companies such as **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)). A gradual increase in interest rates is good news for the profitability of large insurers. To add to this, Manulife has also netted significant growth from its Asia-based business, so investors looking for overseas exposure could find its stock enticing.

This week, Avery Shenfeld, chief economist at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), released a research note that called into question the methodology of the report from the BIS. Shenfeld criticized the apparently undue focus on Canada's credit-to-GDP gap. He pointed to historically low interest rates as well as falling mortgage arrears rates in the country. Canadian policy makers have also moved to [tighten credit regulations](#), and it has shown a marked impact on housing in the first months of 2018.

In the first quarter, CIBC posted adjusted net income of \$658 million in its Canadian personal and small-business banking segment, which represented a 17% increase from Q1 2017. CIBC reported that higher fees and strong credit growth were key drivers in the quarter. Provision for credit losses on impaired loans also dropped, as the bank reported lower bankruptcies and write-offs for credit cards and lending portfolios.

**Equitable Group Inc.** ([TSX:EQB](#)) stock has dropped 22.2% in 2018 as of close on March 22. Shares have faced downward pressure due to plummeting home sales volumes in Canada and the concern that loan growth at alternative lenders could suffer in the wake of new OSFI mortgage rules. Equitable Group will thus be facing a challenging environment to meet the record net income it posted in 2017. Still, the company projected in the middle of 2017 that tighter mortgage rules could help with retention rates.

Going forward, a credit crunch may eat into loan growth for Canada's major financial institutions. However, policy makers are taking early steps to guarantee the integrity of its largest lenders, which should provide peace of mind to investors, even in the midst of stock market volatility.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:EQB (EQB)
5. TSX:MFC (Manulife Financial Corporation)

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