



## 3 Reasons Royal Bank of Canada and Scotiabank Stock Belong in Your Portfolio in May

### Description

The S&P/TSX Composite Index shed 61 points on April 30. This marked the end of a month that saw a promising rally for the TSX in the final weeks, led by [strength in the large energy segment](#). However, today we will focus on two top Canadian banks that still offer up great value in the beginning of May. The second round of bank earnings season will soon be upon us, and investors should be prepared to jump on bargains when and where they are available.

Here are the three reasons investors should stack up **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) stock today.

### Rising mortgage rates could shore up weakness in loan growth

The problem of [Canadian household and consumer debt](#) was one factor that stayed the hand of the Bank of Canada in its April rate decision. In late April, Royal Bank and **Toronto-Dominion Bank** announced a hike in five-year posted mortgage rates. Scotiabank has yet to move on its own mortgage rates and said it could “not elaborate on pricing changes we could be considering.”

The aggressive move came as a surprise to some experts and analysts. Royal Bank posted 6.4% growth in its residential mortgage book in the first quarter of 2018. However, many expect the slowing housing market in Canada to show up on the books of major lenders in the coming months. Royal Bank has wrestled with historically low rates for almost a decade, and higher rates should improve margins in anticipation of slower loan growth going forward.

### Scotiabank still attractive due to its emerging markets exposure

The severe turbulence experienced in U.S. and Canadian markets to start 2018 drove interest in emerging markets. However, the spillover from the ongoing U.S.-China trade spat has put a damper on the early momentum. A strong U.S. dollar is also keeping emerging markets in check, but Scotiabank needs to remain on your radar. The Latin American markets have put in an impressive performance so far this year.

As of close on April 30, the MSCI Latin America Index was up over 6% in 2018. The Bovespa Stock Exchange in Brazil has surged over 12% in 2018 thus far. In the first quarter of 2018, Scotiabank posted net income of \$667 million in its international banking segment, reflecting a 16% jump from the prior year. This was largely due to solid loan and deposit growth in Latin America.

### **Valuations are still attractive ahead of Q2 earnings**

Bank stocks have suffered from broader weakness on the TSX in early 2018, but Q1 earnings and a strong domestic economy should convince investors not to turn away from these profit machines.

Royal Bank stock has dropped 4.8% in 2018 as of close on April 30, but shares are still up 4.4% year over year. The bank posted a solid first quarter that adjusted growth of 10% of its Personal and Commercial banking net income and 39% growth in its Wealth Management segment. It also offers a quarterly dividend of \$0.94 per share, representing a 3.7% dividend yield.

Scotiabank stock has dropped 2.7% in 2018 and is up 4% year over year. The bank reported earnings per share of \$1.86 in Q1 2018 compared to \$1.57 in the prior year. It also increased its quarterly dividend to \$0.82 per share, representing a 4% dividend yield.

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2. Investing

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1. Editor's Choice

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