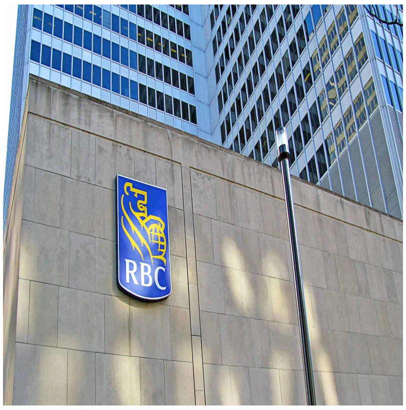

Are Bank Stocks a Good Bet in a Troubled Housing Market?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) made waves in late April after hiking rates on fixed-rate mortgages. This came after the Bank of Canada had held the benchmark interest rate at 1.25% in its April meeting. **Bank of Montreal** recently followed suit and hiked its mortgage rates in early May.

The Bank of Canada has made the state of the Canadian housing market a central focus in successive statements. In a recent statement, the central bank drew interest to high household debt, which is currently sitting at 170% of disposable income. The Bank of Canada is reasonably confident that limited supply will help to support prices going forward. The central bank also reiterated its neutral rate, which will range between 2.5% and 3.5%, putting the current 1.25%, well below the target.

Canadian banks are flush with cash at the moment, giving a reasonable buffer in the event of a prolonged decline in housing. Most recently, BMO released a bearish report that projected housing in Canada could enter a period of stagnation that may last a decade or more. Analyzing the health of the housing market remains quite difficult.

The central bank has hiked interest rates three times over the past year, but historical rates remain low. Housing demand is still very strong across Canada, and new OSFI mortgage rules could generate pent-up demand, as prospective buyers wait on the sidelines. Home construction is churning along at a strong pace, although housing starts slowed in March, according to CMHC. Canadian economic growth exceeded expectations in 2017, but it has been projected by the IMF to slow to below 2% by 2020 at the latest.

Alternative lending stocks have been pummeled in 2018. **Home Capital Group Inc.** (TSX:HCG) stock has dropped 20.2% this year as of close on May 7. Home Capital and other lenders projected that loan growth would suffer under new OSFI mortgage rules.

Investors should remain confident in Canadian banks, even in the midst of a shaky housing market. TD Bank and Royal Bank are particularly attractive targets ahead of the next round of earnings.

TD Bank stock rose 0.58% on May 7. Shares have climbed 2.8% month over month. The stock fell under the $70 mark in April

, which signaled an attractive buying opportunity for those on the sidelines. TD Bank boasts the largest U.S. footprint of the Big Six Canadian banks, and recent U.S. bank earnings should bolster investor confidence in this stock going forward. The bank is set to release its second-quarter results on May 24.

Royal Bank stock has followed a similar trajectory. Shares appeared to bottom out in mid-April, but the stock is up 1.5% month over month as of close on May 7. In Q1 2018, Royal Bank saw net income rise 7%, excluding the gain on the sale of the U.S. operations of Moneris. It also posted 6.4% in its mortgage book in the first quarter.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:HCG (Home Capital Group)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/07/02
Date Created
2018/05/08
Author
aocallaghan