Are Bank Stocks a Safe Target This Summer?

Description

Economists at **National Bank of Canada** recently released a report that sought to rank the nations and economic blocs that could be most exposed to increased protectionism. The chart listed the Eurozone nations as the most exposed to “de-globalization,” which comes as no surprise considering the reliance on exports of the top European economy — Germany. The Eurozone sees a 45% share of exports in GDP, while Canada as a nation came in behind at a little over 30%.

The United States was the least vulnerable, with less than 15% share of exports in GDP. President Trump and his advisors are confident that they are dealing from a position of significant strength not just against China, but also against their allies. NAFTA negotiations have stalled for the time being, and Canada appears to be employing a wait-and-see approach. Auto tariffs could come as soon as this fall.

Where does this leave Canada’s top banks? The S&P/TSX Composite Index climbed 96 points on June 26 following a 266-point plunge the previous day. Bank stocks have been battered amid the turmoil.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank stock has dropped 2.9% in 2018 as of close on June 26. Shares are up 5.9% year over year. The bank posted a solid revenue increase of 9% from Q2 2017 to $3.06 billion. It also posted strong growth in Wealth Management and Personal and Commercial Banking in both Canada and the United States.

Earlier this year, Royal Bank CEO Dave McKay warned that Canada was suffering from capital flight. For McKay, this is due to domestic factors that have failed to draw in investment, but the critical factor was the U.S. Tax Cuts and Jobs Act. The Trump administration pushed through a tax reform package that slashed the corporate rate from 35% to 21%.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank stock has climbed 3.9% in 2018 so far and is up 17.3% year over year. The bank has been powered by impressive earnings and has also received a boost from policy south of the border. In the second quarter, adjusted net income rose to $3.06 billion, and year to date it was reported at $6.008 billion compared to $5.119 billion in the same period last year.

TD Bank CEO Bharat Masrani has also warned of blowback from ongoing trade disputes. This spring he urged cooperation and indicated that a global trade war would likely lead to recession. There is a silver lining for TD Bank with respect to the aforementioned report when we consider its large U.S. footprint. U.S. Retail banking net income rose 15% year over year in the second quarter.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC stock has dropped 5.1% in 2018 so far. Last week, a CIBC report credited trade tensions for the plunging odds of a Bank of Canada rate hike. CIBC saw net income rise 26% in the second quarter to $1.31 billion. U.S. Commercial Banking and Wealth Management posted a 431% surge in year-over-year net income largely due to the inclusion of CIBC Bank USA which began in Q3 2017.

Bottom line

The three above banks possess a solid U.S. footprint and remain attractive targets, even as trade tensions have worsened. All three are solid holds in the early summer.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2018/06/27
Author
aocallaghan