



Why This Bank Earnings' Season Really Matters

Description

The time for speculation is over within the Canadian financial services industry, with investors who have priced in many of the tailwinds that have been expected to carry Canada's largest banks higher now seeking tangible results in the form of earnings.

Expectations surrounding rising interest rates and tax cuts in the U.S. boosting profitability for financial institutions on both sides of the border has resulted in a flurry of interest among investors who are looking for relatively safe equity options in what can only be characterized as an extremely overpriced market at this point in time.

The question now is whether the market has too aggressively priced in these tailwinds, or if growth over and above what has already been priced in could take these companies higher in the medium to long-term.

This week, Canada's largest bank by market capitalization, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) reported strong earnings growth of 11% buoyed by increased operating leverage and margin expansion, which have signaled to the market that Royal Bank is indeed one of the best options on the TSX for investors looking for a slow and steady long-term approach. This earnings release resulted in a valuation bump for the bank, which has been competing with rival **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) for top spot as Canada's most valuable bank.

Over the past month, shares of Royal Bank are up more than 5%, thereby indicating that short-term sentiment for financials remains strong and investors are largely placing their bets on size and scale over dividend yield — a trend I expect to continue.

With interest rates on the rise, yield among financials is becoming less important relative to growth, as investors have a gamete of high-yield options available in the fixed income space, which provide greater security and income stability than equities, on the whole. Financials such as Royal Bank will thus need to continue to focus on profitable growth, as investors key in on long-term cash flow expansion and less on dividend yield.

Over the long run, putting one's hard-earned money to work on large financial institutions has proven

to be a prudent strategy; Canada's financial institutions have shown relatively strong long-term fundamentals, with less volatility than global counterparts, making these excellent investments for investors seeking safety.

This earnings season will remain one of the most important in recent history for investors looking to add a new position at this point in time in companies such as Royal Bank. For those who have bought and held for any length of time, continuing to do so is very likely the most prudent long-term play.

Stay Foolish, my friends.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/01

Date Created

2018/08/26

Author

chrismacdonald

default watermark

default watermark