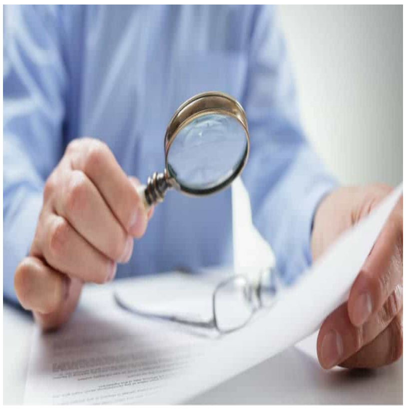

Better Buy: Canadian Imperial Bank of Commerce (TSX:CM) or Royal Bank of Canada (TSX:RY)?

Description

If you are a serious investor that is searching for ways to benefit from the different macro trends that are dominating the headlines, take a moment to consider positioning your portfolio for rising interest rates.

Interest rate swings have long influenced stock market moves, and this time is no different. The latest move, a 25-basis-point rise in interest rates, brought the benchmark rate to 1.5%.

So, without further hesitation, let's take a look at two Canadian banks, both beneficiaries of this rising interest rate environment that provide investors with solid dividend income as well as a strong potential for capital gains.

But which dividend-paying bank stock is the better buy?

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

CIBC stock is nicely exposed to changes in interest rates, as its net interest margin creeps up as interest rates rise.

The stock has risen 17% in the last year and shows no signs of stopping, with efficiency gains and higher interest rates driving strong results in 2017 and the first half of 2018.

In fact, the bank's efficiency ratio in 2017 was 56.5%, and it was 55.5% in the first half of 2018.

CIBC stock's divided yield is currently a healthy 4.43%, and the bank has increased its dividend several times in the last few years. In the last year alone, the dividend was increased 8.8% to the current $5.44 per share, signifying management's confidence in the business.

The company remains one of the least-expensive Canadian banks on a price-to-earnings-multiplebasis partly due to its past, but also due to the fact that it remains one of the most heavily weightedtoward Canada and toward personal and mortgage lending.

On the flip side, the bank's recent U.S.-based PrivateBancorp acquisition has been a good one in terms of diversification and efficiency gains.

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

Royal Bank is also benefiting from rising interest rates and a widening spread, but the stock has risen a less-impressive 13.4% in the last year.

But the bank is also having a very strong start to the year and had a strong 2017, with a 3% dividend increase to $0.94 per share and a share buyback of nine million shares a testament to this strength.

Royal Bank stock has a current dividend yield of 3.74% and maintains its place as an attractive dividend-paying stock.

Bottom line

Credit risk is elevated for the banks in general, with rising interest rates and Canadians' heavy debt load, but with strong capital ratios and the benefits that rising rates bring to the banks' bottom line, investors needn't be worried about it too much.

In conclusion, CIBC stock offers more upside and a higher dividend, but also more risk, while Royal Bank stock can be expected to be steadier.

But both will probably do well in this environment.

CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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