



## Should You Buy BMO (TSX:BMO) or CIBC (TSX:CM) Stock to Outride a Recession?

### Description

*Recession* — the one word that no stock market commentator likes to hear, especially when there are warning signs that one could indeed be waiting for us just around the corner. What investors should be looking for now is defensiveness, rather than high growth or unrealistic dividends. With this in mind, let's take a look at two of the most defensive banking stocks on the TSX index and see whether one has the edge.

#### Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#))

Bank of Montreal ([BMO](#) to you and me), is one of the big boys of Bay Street, with a chunky market cap of \$69 billion that should see it through all but the worst of market crashes. A one-year past earnings growth of -9.5% doesn't come close to beating the industry standard of 10% for the same period, though, and can't even touch its own 5% five-year average past earnings growth.

With a price tag equal to its future cash flow value, a decent valuation is not a problem for BMO. A P/E of 14.4 times earnings confirms this, and we can look to a PEG of 1.1 times growth and P/B of 1.7 times book if further clarification is needed.

Growth investors should be pleased to see that there is still room for expansion in this stock, with a 12.6% expected annual growth in earnings over the next couple years. If you need further indications of quality, a return on equity of 11% last year is a little mediocre for such a big banking entity, though a dividend yield of 3.59% isn't terrible.

In terms of liabilities, BMO checks out in all ways but one important one: it has a low allowance for bad loans. While that doesn't mean too much when times are good, it's something to file away in the "warning" file if you're looking for stocks to hold through a recession. Widespread defaulting on loans is one of the most dangerous aspects of a recession, and any banking stock you hold should be able to handle such an event.

## Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#))

Canadian Imperial Bank of Commerce ([CIBC](#)) weighs in a little under BMO's mighty heft, with a lower market cap of \$55 billion. Never mind that, though, because CIBC hit harder than BMO this past year, with a one-year past earnings growth of 14.5% that beats the Canadian banking industry one-year average of 10%, as well as its own five-year average past earnings growth of 10.3%, trouncing BMO's past performance for both periods.

Discounted by 18% of its future cash flow value, CIBC appears to be better value for money than BMO at the moment: a P/E of 10.7 times earnings and on-the-nose P/B of 1.7 times book confirm this. However, a higher PEG of 2.6 times growth means that you are not getting as good value for money in this regard as you are with BMO, especially not when you consider a much lower 4.2% expected annual growth in earnings over the next couple years.

A return on equity of 15% last year is very common on the TSX index, and while it could be higher, at least it beats BMO's ROE. A dividend yield of 4.42% beats BMO's offering at today's prices. In terms of liabilities, like its pal BMO, CIBC also doesn't have much appetite for bad loans. If you want one that does, try **Toronto-Dominion Bank**.

### The bottom line

After having a standout summer, BMO is now looking a little mediocre compared to CIBC. They make a good pair, though, so if you are looking to stash some solid banking stocks in your TFSA, RRSP, or other fund, you could always go for a bit of both. Looking for a streamlined play? CIBC is your best bet here on pretty much all counts.

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