



Dividend Investors: A Top Reason to Buy Canadian Banking Stocks Now

Description

After the U.S.-Canada trade deal was made over the weekend, the outlook for [Canadian banking stocks](#) looks brighter again.

The proposed United States-Mexico-Canada Agreement (USMCA), which was made after long and tiresome negotiations, removes the biggest hurdle in the way of the Bank of Canada to raise interest rates.

If the Bank of Canada does raise interest rates, it will send a bullish signal for financial stocks. In an environment when rates are rising, lenders generally outperform other asset classes. Banks make more money on personal loans, credit cards, and mortgages. They also benefit from more credit demand as businesses expand and new money pours in.

In the anticipation of a more aggressive central bank, the yield on the five-year Government of Canada bond surged to a 10-year high of 2.28% on Monday, while the Canadian dollar rose 0.7% to a four-month high.

Economists are expecting that Bank of Canada governor Stephen Poloz will boost the central bank's key lending rate by a quarter point to 1.75% at the next meeting on Oct. 24. But after the trade deal, the possibility of more than the two rate increases has increased substantially if the economy continues to show strength.

If you want to play the strength of the Canadian economy, investing in the nation's banks is one of the safest bets. Canadian lenders operate in an oligopoly where their domestic markets are well protected. They are also benefiting from their foreign operations where growth has been strong.

Among the top five banks, I particularly like **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) due to their diversified revenue base and their growing presence overseas.

TD is one of the largest lenders in the U.S. due to its large branch network. [Scotiabank](#), however, is growing aggressively in South America. These two lenders are in great positions to produce superior returns both at home and abroad, especially when the Canadian economy is firing on all cylinders.

For dividend investors, TD and Scotiabank have provided a great avenue to earn steadily growing income. These top lenders distribute between 40-50% of their income in dividends each year.

Bottom line

Between the two, I find Scotiabank trading at a much more attractive level than TD after a pullback in its share price this year. With the forward price-to-earnings multiple of 10.21, BNS stock is one of the cheapest banking stocks to own. The stock pays \$3.4 a share annual payout, which has been growing consistently.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:TD (The Toronto-Dominion Bank)

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