Here's Why You Should Buy Canadian Bank Stocks in November

Description

The bloodbath in October took its toll on nearly every sector on the TSX, and not even Canadian banks were spared. The **BMO Equal Weight Bank ETF** (TSX:ZEB) dropped 6% month-over-month as of close on November 2. The fund was also down 2% year over year.

There is no shortage of downed stocks on the TSX after October, but Canadian banks stocks should top targets for investors early this month. Let's examine why.

TSX is rife with discounts after October

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has dropped 5.5% month-over-month as of close on November 2. The rough month of October pulled TD into negative territory for 2018. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) shares dropped 7.3% over the past month. The stock is now down 6.7% in 2018 so far. The top two banks in Canada, in total assets, have posted positive earnings for the first three quarters of 2018.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock has dropped 5.3% month over month. Shares are down 12.3% in 2018 so far. Scotiabank already looked like a discount heading into October, and now it is simply too tempting to pass up, especially factoring in its 4.6% dividend yield. Here are some of the reasons why Scotiabank was my top stock pick this month.

TD Bank has fallen into attractive territory judging by the **Relative Strength Index** (RSI), which dipped below 30 as market's close on November 2. All three are well worth considering after one of the most turbulent months in years for bank stocks.

The final round of earnings is on tap

Investors can expect earnings from all three of these banks in the coming weeks. TD Bank is set to release its fourth-quarter and full-year results on November 29. Royal Bank's Q4 and full-year report is scheduled for a November 28 release. Scotiabank's fourth-quarter results are expected to be released on November 27.

TD Bank has reported adjusted earnings per share of $4.84 in the first nine months of 2018 compared to $4.18 in the prior year. Royal Bank has posted diluted earnings per share of $6.16 in the year-to-date period in Q3, representing a 9% year-over-year increase. Scotiabank posted adjusted earnings per share of $5.34 in the first nine months of 2018 compared to $4.89 in the same period in 2017.

All three have beaten back headwinds to post superior results to what was an already impressive 2017.

A cautious Bank of Canada is a positive for investors

The Bank of Canada elected to raise the benchmark rate to 1.75% on October 24, which also coincided with the largest single-day drop on the TSX in three years. The rate tightening environment has been a positive for Canadian banks in 2018 as earnings have been boosted due to improved margins. However, rising rates also carry the threat of squeezing overstretched consumers and capping loan growth.

New Statistics Canada data showing a shrinking labour force and stagnant wages has dropped the chances of another rate hike in December.

Gradual rate hikes are good news for banks, which will benefit from improved margins while avoiding the potential economic shocks of a rapid rate tightening environment.

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Author
aocallaghan