Should You Be Stacking Scotiabank (TSX:BNS) Stock Right Now?

Description

Scotiabank (TSX:BNS)(NYSE:BNS) stock has dropped 8.9% over the past three months as of close on December 19. I have been high on Scotiabank this fall, as it has continued its steady decline. Scotiabank was my top stock pick for November.

Scotiabank stock is now hovering around 52-week lows as of close on December 19. Its RSI was last recorded at 38, which is outside of oversold territory. Investors may want to be patient as they await the new year. Scotiabank and its peers are poised for a bounce back, but volatility could be here to stay for the next few weeks.

The United States Federal Reserve pulled the trigger on a rate hike on December 19, a decision which rattled markets in the latter half of the trading day. Traders had expected a move upward, but confirmation appeared to darken the mood in the markets. The Federal Reserve and the Bank of Canada have both hinted at a dovish turn when it comes to rate hikes in 2019, especially if economic fundamentals continue to weaken.

Scotiabank had a very solid 2018, which mirrored its Canadian peers. The most recent rate increases resulted in improved margins at Canadian banks. This environment allowed banks to improve on record 2017 results, even as loan volumes sputtered. In the fourth quarter, Scotiabank saw net income in its Canadian banking segment rise 4% year over year to $1.11 billion. The bank reported positive asset and deposit growth in addition to improved margins.

The International banking segment was a good story for Scotiabank in 2018. In Q4 adjusted net income climbed 22% year over year to $746 million. Scotiabank reported strong loan and deposit growth in the Pacific Alliance. The economies of Chile and Peru both experienced improvement in 2018. Of course, these economies are facing many of the same headwinds that developed nations will contend with in 2019.

The Conference Board of Canada expects GDP growth of 1.9% in 2019. This is in comparison to over 2% which was anticipated in the beginning of 2018. Growth in the developed world was forecast to slow into the next decade, but trade tensions and other factors continue to have a negative impact on investment. Subdued oil prices will weigh on energy investment, and the housing sector is expected to see another year of low sales after regulations were tightened in 2017 and 2018.

Where does this leave Scotiabank as investors head into the holidays? Value investors should find its current price enticing. In the fourth quarter, the bank announced a quarterly dividend of $0.85 per share. This represents an attractive 4.7% yield.

Worsening economic fundamentals do not bode well for bank shares going forward, but the TSX already looked undervalued coming into the fall rout. Investors should brace themselves for tougher conditions ahead as the spectre of a bear market is looming. Those with a long time horizon should look into adding Scotiabank, but those looking for short-term options may want to look elsewhere.

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