Will 2019 Be a Good Year for Canada's Top Banking Stocks?

Description

Banks, whose business is to lend money, are very closely tied to the overall health of the economy. As the economy booms, consumers borrow more, and companies expand, lenders benefit and make more profit.

That was the story of 2018 when Canada's top banks made record profits and continued to expand. But as we're getting ready to welcome 2019, the environment is not that conducive for the economy as it was at the beginning of 2018.

On the global front, the U.S.-China trade war is the biggest threat to the global growth. Then we have plunging oil prices that have grave implications for the Canadian economy, which is highly dependent on energy exports.

The third-biggest risk to top Canadian banks is the direction of the nation's housing market. A decade-long boom in the housing market is slowing and threatening the stability of the financial system, which has huge exposure to the mortgage market.

Though the banking regulator and the government together have tightened the borrowing criteria, some analysts still see a hard landing for the market if the global economy goes through a severe recession.

Despite the negative macro environment for banks, Canadian banks have strong liquidity position and their balance sheets are strong. Their performance during the Financial Crisis of 2008 has proven that Canada's top banking stocks can weather any storm better than their peers south of the border.

For investors, the biggest question is when they should get excited about the Canadian bank stocks and start buying? In my view, the first quarter will be crucial to make that decision. That will most likely be the period when the U.S. and China will have some settlement of their trade dispute that has made the global economy hostage.

If we have the two largest economies back in business as usual, then we will definitely see a rally in stocks that are tied to global growth. And in this rally, Canadian top banking stocks will be ahead due to their strength and business diversification.

After the pullback of the past three months, I particularly like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY). Due to their size, earnings momentum, and growing dividends, these two players offer the best risk-reward equation to investors who are looking to add solid income stocks to their portfolios.

Bottom line

It's tough to call a bottom in banking stocks at a time when global economic picture is getting murkier and when the risks that brought in one of the biggest sell-off of this year are still lurking. But I believe the first quarter of 2019 will offer a good entry point to long-term investors who want to lock in juicy dividend yields offered by these quality lenders.

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