These 2 “Big 6” Banks Just Fell Into a Bear Market

Description

Don’t look now, but **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) have both fallen into bear market territory, formally defined as a peak-to-trough decline of at least 20%. The other four banks in the Big Six are flirting with bear market territory, and should the market carnage continue; all six names could undoubtedly end up in bear mode by year-end.

If you’re a deep value investor who’s itching to put some money to work after the recent slump in equities, it makes sense to look to the most battered of bank stocks to get the best bank for your buck. While Scotiabank and BMO share a similar set of unsystematic risks, each name has endured their own unique set of setbacks that has enticed the bear to awaken from his cave.

Without further ado, let’s have a closer look at each battered bank to see which, if any, is suitable for your portfolio:

Scotiabank

Scotiabank has been on a steady decline for well over a year now. As Canada’s most international bank, Scotiabank is vulnerable to the expected slowdown in emerging markets, specifically the Pacific Alliance countries consisting of Chile and Peru, two high-growth markets that have experienced high double-digit percentage loan and deposit growth numbers over the past year.

With the U.S. dollar gaining strength thanks to the very hawkish Fed chair Jay Powell’s rapid-fire interest rate hikes, the emerging markets have been under pressure. Given two U.S. rate hikes are in the books for 2019 in spite of the significant economic slowdown on the horizon, one can only expect the emerging markets to falter further over the medium-term.

As Scotiabank entered bear market mode, its dividend yield now stands at 5.1%. While enticing, I’d encourage investors to take not get too greedy yet, as more pain is likely in the forecast for 2019. The dividend could swell past 6% in 2019, and you’re going to want to average down your cost basis, as you average up the yield based on your invested principal.

Bank of Montreal

It may surprise you to see BMO as one of the two Big Five banks, as the bank has arguably been one of the top performers in the first half of the year. BMO continues to pick up traction with its U.S. business, and with a strong position in Canada's wealth management scene, which is poised to ride a secular tailwind, it wasn't too surprising to see BMO as one of the pricier banks a few months ago.

Today, BMO stock is one of the cheapest after clocking in a fairly unimpressive quarter, and while BMO is due to hit a slowdown in the new year, the stock didn't deserve to shed a fifth of its value over the course of a few weeks! Insiders have recognized that their stock is unsustainably undervalued after the recent market turmoil, and that's a huge reason why they've loaded up on their own shares on the public markets.

BMO's insiders are eating their own cooking, and after getting roasted further, Foolish investors should also be thinking about getting their fill. The 4.6% is just the cherry on top of the sundae.

Foolish takeaway

Both Scotiabank and BMO are battered bargains. If you're a long-term investor who's willing to endure short-term volatility, I have no problem recommending both names. I think BMO is the better bargain at this juncture because of its strong wealth management segment. If you're keen on obtaining an international outlet to the Latin American markets and would like a higher yield, Scotiabank is your horse. Giddy up!

Stay hungry. Stay Foolish.

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joefrenette