Banking Blast-Off: Why Canada's Big 6 Banks Are About to Roar Even Louder!

Description

What a relief rally! Many U.S. and Canadian banking giants soared on Wednesday after **Bank of America** pole-vaulted over the earnings expectation of analysts, essentially shattering the overly pessimistic view of the big banks that many investors on the Street have shared over the last few months. Indeed, many of the big banks were severely oversold, and in spite of the negative pressure placed on the entire sector, the fact remained that the powerful banking behemoths were continuing to roll in the dough.

Investors grew incredibly fearful over the implications of an inverted yield curve, which was bad news for the banks. Too much emphasis was being placed on net interest margins (NIMs), so most investors let the broader macro bear thesis prevent them bagging a bargain with any one of the severely battered bank names.

Warren Buffett wasn't one of these investors. As bank stocks dropped to their lowest valuations in recent memory, the man backed up the truck. And although many questioned the Oracle of Omaha's recent moves, it's clear that the man was on to something. He spotted a discrepancy between a stock's market value and its intrinsic value, as investors got caught up in the macro bear story.

Today, all Canadian banks are still trading at valuations that are well below historical average levels. Just under a month ago, **Laurentian Bank** (TSX:LB) was trading at its cheapest multiple ever with a dividend yield that swelled past the 7% mark and quickly well back to the 6%.

Now, this regional bank was an outlier, as shares were severely beaten-up, and that's what allowed the stock to soar 20% in just three weeks. Essentially, Laurentian was an upside correction that was waiting to happen, which is why I've pounded the table on the stock twice over the past month.

Although the easy money is likely gone with Laurentian, I believe Canada's Big Six banks are lagging with regards to the rebound, and in time they'll all eventually enjoy an upside correction of their own thanks to earnings reports that'll propel the entire sector higher.

At these depressed levels, each one of the Canadian banks is a buy, but if I had to choose one, it'd have to be **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), Canada's most American bank, because it's operating at a level high level and its technological efforts are going to reap massive fruit a lot sooner than many analysts on the Street think.

I shed light on TD Bank's under-the-radar release of its AI-powered chatbot on its iOS app last week, and although digital assistants are nothing new for smartphone users, as it's already pre-installed into every phone, I believe TD Bank is planning on turning Clari into a replacement for front-of-line workers at its branches.

TD Bank is future-proofing itself while keeping top-line growth strong, all while maintaining a lid on significant risks. Simply put, TD Bank is the best of its breed, and it's severely underappreciated and well equipped to head past $80 by year end.

Pick up shares now and get ready for a more significant relief rally and another fat dividend hike.

Stay hungry. Stay Foolish.

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2. TSX:LB (Laurentian Bank of Canada)
3. TSX:TD (The Toronto-Dominion Bank)

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