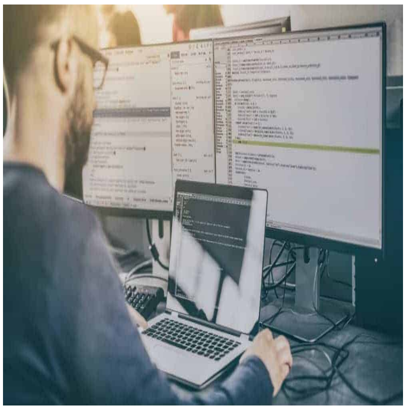

3 Reasons You Should Hold off Buying Bank Stocks After Earnings

Description

Canadian investors have just been given their first look at bank earnings for 2019. It was a mixed bag for Canada's top financial institutions. This should come as no surprise considering the anemic growth Canada has posted in late 2018 and is expected to report in Q1 2019.

The **BMO Covered Call Canadian Banks ETF** (TSX:ZWB) aims to provide exposure to a portfolio of the Big 6 banks. The ETF has climbed 10% in 2019 as of close on March 6.

Today we are going to look at three reasons why investors should hold off buying bank stocks after this most recent earnings season. Of course, this does not mean that banks are not an attractive hold in the long term.

Lukewarm earnings

Several of the top banks got off to a slow start in 2019. Earlier this month I'd covered **Canadian Imperial Bank of Commerce**, which turned in a disappointing quarter, but still raised its quarterly dividend. CIBC was not alone.

Scotiabank (TSX:BNS)(NYSE:BNS) released its first-quarter results on February 26. The bank reported that its first quarter profit fell to $2.25 billion compared to $2.34 billion in the prior year. Despite this, Scotiabank raised its quarterly dividend to $0.87 per share, which represents a 4.8% yield. Of the banks we will cover today, Scotiabank offers the best value for income investors.

National Bank (TSX:NA) reported net income of $552 million in the first quarter, which was roughly flat from the previous year. Diluted earnings per share rose a modest 3% year-over-year to $1.50. Both banks were hit hard due to market volatility in Capital Markets segments.

Slowing Canadian growth

Canada's economy expanded at a 0.4% clip in the fourth quarter of 2018. This meant that Canadian growth settled in at 1.8% for 2018, falling below expectations for the year. Growth was hindered by a 2.7% quarter-over-quarter decline in investment spending. Exports dropped as did household spending in the final quarter.

Economists had projected 1.2% growth in the fourth quarter, so this number is a disappointing one. The Bank of Canada and other analysts have forecast that the first quarter will also be underwhelming in terms of growth. In December, economic growth contracted 0.1% which represented the second consecutive month of overall declines.

These are not encouraging numbers, as Canadian GDP growth was already expected to slow in 2019 and 2020.

Overpriced TSX

Back in February I'd discussed why I thought the TSX index looked overheated. The TSX has climbed 12.3% in 2019 as of close on March 6. The two stocks we have covered today are not in technically overbought territory, but both have benefitted from the big rally to start the year. With economic headwinds building up ahead of the spring season, investors should expect the market to exhibit more volatility going forward.

Shareholders should feel good about holding tight right now, but prospective buyers should wait before pulling the trigger on bank stocks in early March.

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