Are These Top Bank Stocks Overvalued?

Description

Bank earnings season brought its fair share of disappointments in late February and early March. Market volatility in the final weeks of 2018 had a negative impact on earnings at the Big Six, but slowing growth in the broader economy is a long-term concern. Nonetheless, the TSX Index has surged to start 2019. Bank stocks have been a big part of that rally. These are some of the reasons I'd warned investors about pricing earlier this month.

Market bulls have a reasonable case in their corner. Bank stocks have powered gains on the TSX for a decade. Slower growth will provide a challenge, but Canada's banks are arguably the most robust in the developed world.

Today, we are going to look at two bank stocks that are still in the red in the year-over-year period. Should investors bet on these stocks continuing the upward trend in the spring and summer? Let's dive in.

CIBC (TSX:CM)(NYSE:CM)

CIBC stock has climbed 11.8% in 2019 as of close on March 18. Shares are down 3% year over year. In the first quarter, the bank reported a 5% year-over-year drop in adjusted net income to $1.36 billion. Canadian Personal and Small Business Banking took a hit as the bank moved to up its provision for credit losses and suffered due to lower fees.

Net income in the Capital Markets segment fell 38% from the prior year. This was driven primarily by lower revenues. A solid performance in the first quarter of 2019 should provide a boost in Q2 2019.

CIBC's strong point among its peers has been its housing portfolio. In previous years it had been an industry leader, but its portfolio has been overshadowed by banks like **Royal Bank** as a regulatory crackdown has cooled the market. There is renewed pressure to loosen restrictions and rate hikes appear to be on pause. This is good news for CIBC's mortgage book going forward.

CIBC stock last had an RSI of 59, putting it close to overbought territory. Shares are trading at the midway points of its 52-week range. I like CIBC in the long term, but investors should be careful not to burn themselves on this stock in the spring.

Scotiabank (TSX:BNS)(NYSE:BNS)

Scotiabank stock has increased 8.3% in 2019 so far. The stock is down 10.7% from the prior year. Shares took a dip following the release of its first-quarter results.

Adjusting for acquisition-related costs, net income fell 3% year over year to $2.29 billion. Scotiabank's Canadian retail banking segment struggled due to lower gains on the sale of real estate. Adjusted income in International Banking was up 19% year over year to $805 million. Emerging markets have started strong in 2019. This exposure continues to be a strong point for Scotiabank.

Scotiabank stock is also trading in the middle of its 52-week range. Shares had an RSI of 55 as of close on March 18. This puts it in neutral territory, but it still has not recovered following its post-earnings dip. Positive market conditions and strong performance in its international banking segment should propel Scotiabank to improvement in subsequent quarters. It also offers a quarterly dividend of $0.87 per share, which represents a 4.7% yield.

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