



## This 1 Development Is Good News for Bank Stocks

### Description

Earlier this month, I'd [discussed](#) how investors should respond to first-quarter earnings at Canada's top banks. Lukewarm results and slowing domestic growth should concern investors. However, an overvalued TSX is also something to keep an eye on as we head into April.

Bank stocks have thrived over the past decade. Financial institutions have achieved record profits in an environment of low interest rates and friendly monetary policy, although the Bank of Canada (BoC) has been more conservative than other developed nations. The rate-tightening path has improved margins for the big banks, as these institutions have wrestled with razor-thin loan margins for nearly a decade. However, low interest rates have mostly been a positive in boosting volumes and producing a [friendly market for big banks](#).

A recent **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) Securities report predicted that the BoC would hold off on a rate hike until late 2020. This will give large financial institutions and their customers some breathing room to adjust to a harsher rate environment.

TD Bank stock has climbed 11% in 2019 as of close on March 20. The stock is down 1.1% year over year. Like its peers, TD has ramped up its provision for credit losses in anticipation of headwinds and greater pressure on Canadian households. The dovish path laid out by the BoC is worth a sigh of relief.

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) stock has climbed 10.1% in 2019 so far. Royal Bank reported solid earnings in Q1 2019 and continued to benefit from improved margins due to higher interest rates. Royal Bank economist Dawn Desjardins predicted in early March that the BoC is unlikely to move on a rate hike until the second half of 2019 at the earliest.

The largest financial institution in Canada has thrived in the face of economic headwinds. One of the few drags on its Q1 earnings was market turbulence that spilled over into the first quarter of fiscal 2019. Fortunately, banks are likely to see a boon from what has been a remarkable for the stock market in the first three months of the calendar year.

**CIBC** ([TSX:CM](#))([NYSE:CM](#)) stock has increased 10.2% in 2019. The stock is down 4.4% from the prior year. It was a mixed bag for CIBC in the first quarter. The bank saw its earnings weighed down by the

Capital Market segment. CIBC's mortgage segment was the strongest among its peers for several years, but it has fallen behind in a turbulent housing market.

The federal government is pushing forth action that it hopes will improve housing affordability for Canadians. Mortgage lobbyists are also enthusiastic about a return to the 30-year maximum mortgage cap. A pause on interest rates into the next decade should allow for some additional leeway for prospective buyers, but regulations introduced over the last year and a half will likely keep the housing market cooled.

On the plus side, improved stock market conditions should provide some relief in Q2 2019. More radical proposals will need to come forward before the needle can be moved in the housing market right now. That means CIBC will continue to contend with headwinds in this sector even if rate hikes are on hold.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CM (Canadian Imperial Bank of Commerce)
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