Are the Canadian Banks Like Bank of Montreal (TSX:BMO) Headed for a Big, Fat Crash?

Description

Stocks surged last Thursday thanks to more dovish commentary from Fed chair Jay Powell. The majority of the impressive single-day gains were quickly surrendered (and then some) on Friday, however, as the bond market revealed a potential recessionary signal, sparking fear into the hearts of investors who were euphoric no more than 24 hours ago.

With dampened growth expectations now in the crystal ball of most economists, the markets could be headed for another bout of choppy triple-digit moves in either direction, similar to what we saw on several occasions last year, as investors weigh the benefits of no further rate hikes against potentially lower earnings-growth numbers.

Indeed, many investors don't know what to make of it all. With potentially no rate hikes on the table for the rest of the year and muted growth expectations, one thing is for certain: the banks are going to be between a rock and a hard place. And that's a huge reason why both Canadian and American banks sold off violently across the board last week.

In a prior piece published on February 14, I'd warned investors that the banks would be sub-par investments for those with shorter-term time horizons spanning less than a year.

At the time, the big banks had rallied from the depths reached in late 2018, but I was anything but sanguine on the bounce, as the stage had been set for further struggles and the slightly lower-than-average multiples were more than warranted for all the big banks.

"I wouldn't go as far as saying the banks are duds for the year, but I definitely think investors would be better off waiting for a better entry point, which could very well be in the cards over the coming months," I said. "There are just too many headwinds in store over the next year to justify paying for shares that are only modestly discounted relative to historical averages."

At this juncture, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock stands out as one of the bank stocks that could be in for a fairly large +10% correction in the coming weeks, as investors continue to ditch their bank stocks to the curb in favour of better opportunities given the macro environment.

While most Canadian banks have the potential to become huge losers, BMO stands out as a stock that's among the most expensive of its peers. And given the mediocre results posted in Q4, BMO may lead the charge to the downside in a broader rotation out of the banks and into more attractive investment opportunities.

At the time of writing, BMO stock trades at 12.5 times trailing earnings, 1.6 times book, and 2.9 times sales, all of which are in line with the stock's five-year historical average multiples. Essentially, BMO isn't even trading at a discount, primarily because BMO only had an ugly quarter, as its peers posted hideous results.

Regardless, I'm not optimistic that BMO can continue keeping its head above water as the broader industry dives on further macro worries.

Foolish takeaway on the banks

Are the banks set to crash in 2019? I wouldn't rule out a mild 10-15% pullback from today's levels, and if you're thinking about buying the dip, I'd tread cautiously, as 52-week lows could be tested in a matter of weeks. In any case, I'd watch the banks and keep an eye on their yields, because they could reach levels that'll make them attractive to longer-term, income-oriented investors.

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