3 Downsides to Investing in National Bank of Canada (TSX:NA)

Description

National Bank of Canada (TSX:NA) is relegated to the background whenever you speak of the "Big Five" banks in Canada. But I'd rather refer to the bank as part of the "Super Six," because it is one of the six systemically important banks in the country. There is a branch present in almost every province.

Since National Bank is a top-tier dividend stock (4.18% yield), many investors have it in their stock portfolios. Unfortunately, there's no meat in the bank's investment thesis to whet investors' appetites. The stock is a good prospect if you're only after dividend payments for passive income. But potential investors need to know the downsides.

Future outlook

Stock investors looking for growth would naturally study the future outlook. It's an important aspect of the prospecting process. The earnings growth, in particular, should be exciting, if not eye-popping. In the case of National Bank, analysts' growth estimates for the current year is 4.8% and 7.30% in 2020.

For the sales growth, the projections are 2.50% for the current year and 5.20% in the next. The projections are not sensational compared to probably a small-cap growth stock with strong fundamentals and high income-generating potential. The future outlook is not robust for this $20.4 billion and sixth-largest bank.

Economic slowdown

The darkening prospect of global economic growth is affecting investor sentiment. Actually, the global economy was doing well at the start of 2018 until it lost steam towards the end. The January 2019 Global Economic Prospects see a 2% drop in growth this year among advanced economies.

On the home front, the economy is slowing down with only a 1.8% growth to show in 2018. There was also a noticeable decline in investment and household spending in the last quarter. GDP growth isseen to decline this year and the next.

Low interest rate scenario

Canadian banks and earnings from their capital markets segment were not spared from volatility in the latter part of 2018. The investment banking revenues of National Bank took a big hit while gain on investments was significantly lower than usual.

Most global central banks are following the lead of the U.S. Federal Reserve to hold in abeyance interest rate hikes in 2019. The shares of banks and financial sectors often drop in a low interest rate scenario. More so, the profitability of retail banks, commercial banks, investment banks, and insurance companies suffer.

The major banks in Canada are not expecting a raise in interest rates. Because the recent economic data showed that the economy barely grew in the last quarter of 2018, the Bank of Canada is always on a wait-and-see stance. Come April 26, it will be known whether there's going to be a rate hike or a pause.

Recommended rating

National Bank is a financially stable institution. Potential investors can forego buying the stock at the current level. But current holders are advised to hold on to the stock. Analysts believe a +13.26% upside is still possible.

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