Danger in the Vaults? The Canadian Banking Landscape Could Change Quickly

Description

They're held up as all-weather investments, battle-ready and immune to recession, but could it be that some of Canada's biggest banks may in fact be vulnerable to a market downturn south of the border? Post-yield curve inversion, let's take a look at one of the most America-exposed of the Big Six, as well as one regional alternative, plus a member of the elite FAANGs that wants to take over your finances.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank is fairly exposed to the U.S., and its customer base south of the border may become something of an issue for Canadian investors should the spectre of an American recession materialize into something more tangible. While TD Bank's stats themselves show little indication of risk, the bank's position in the U.S. could become problematic should a downturn become a reality (as could others), and investors might start acting on it.

Down 3.07% in the last five days, could the biggest bank on the TSX index be already reacting to news of the American yield curve inversion? Trading at a 37% discount against its future cash flow value, the home of the green leather armchair boasts a slick P/E of 12.1 times earnings, while its one-year past earnings growth of 10.6% is identical to the of the TSX index itself, and very close to the Canadian banking average.

Laurentian Bank of Canada (TSX:LB)

A regular on the undervalued TSX index stocks lists, Laurentian Bank of Canada offers a more Canada-centric option for fans of financials with a more local flavour. Its negative past-year earnings rate is compensated by a five-year average earnings growth of 14.3%, beating the Canadian banking average of 8.6% for the same period, and signifying a solid overall track record.

One area in which TD Bank has the upper hand over Laurentian Bank of Canada is in its tolerance for bad loans, which is higher than that of the latter stock. However, this is a weak spot for the majority of bank on the TSX index, including some of the Big Six. Laurentian Bank of Canada is a strong, undervalued antidote to the usual big name bankers, and pays a handsome dividend yield of 6.25%.

Apple (NASDAQ:AAPL)

Leaning heavily into its reputation for security, Apple is preparing to muscle in on your banking habits with the introduction of its new Apple Card. This new credit card will potentially be available with a spread of APR rates, opening it up to a range of income brackets. They'll be going in with **Goldman Sachs Group** to offer the new initiative, which may offer low interest rates to customers with good credit scores.

One might expect better stats from one of the top stocks on the NASDAQ, and while a one-year past earnings growth of 17.7% and five-year average 6.8% are positive, they may denote a market that's close to saturation. Meanwhile, a P/E of 15.6 times earnings is standard, though a PEG of 5.4 times growth and P/B of 7.7 times book show where the overvaluation is lurking.

The bottom line

TD Bank's dividend yield of 4.05%, matched with a good-enough 9.7% expected annual growth in earnings, makes for the strongest reason to be invested in this heavyweight TSX index banker. However, U.S. exposure could be a worry, and could lead to real changes in Canadian investment behaviours down the line. Laurentian Bank of Canada makes for a potentially better buy for a defensive investor, meanwhile, and a decently valued one at that.

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