



## Will These 2 Bank Stocks Finish Above \$100 in 2019?

### Description

In the beginning of March, I'd warned investors to [avoid buying bank stocks](#) after a lukewarm earnings season. Turmoil in domestic and international markets had wreaked havoc for Capital Market segment revenues in Canada's top banks. To add to this, Canada is also battling a dip in growth in 2019 that has some bears warning about the possibility of a pullback.

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) is the top financial institution in Canada. Shares have climbed 10.8% in 2019 as of close on April 5. The stock has been mostly flat over the past month. Royal Bank's first-quarter results were generally positive as net income rose 5% year-over-year to \$3.2 billion. Net income in Investor & Treasury Services and Capital Markets segments fell double-digits percentage-wise due to negative market conditions.

Royal Bank stock is now nearing the all-time high it reached back in January 2018. The stock boasts an RSI of 58, which indicates that it is not overbought in early April. Market conditions have improved dramatically to start the calendar year in 2019, and the Bank of Canada expects economic conditions to improve in the second half of the year.

In its recent meeting, the Bank of Canada remained confident that exports and business investment would return to "positive growth" in the latter part of 2019. The central bank was somewhat hawkish on the topic of rate hikes, which was a deviation from its peers in the developed world. However, governor Stephen Poloz did reiterate that "the economic outlook continues to warrant a policy interest rate that is below the neutral range." Poloz also largely dismissed the recent yield curve inversion, place the blame on the historically low interest rate environment.

Canadian banks have benefited from improved lending margins, which was the result of rate tightening. However, the low rate environment has also allowed for a period of massive growth for Canada's financial institutions. The dovish turn in late 2018 should [keep investors bullish](#) when it comes to bank results, at least in the near term.

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock has increased 14.7% in 2019 as of close on April 5. Shares are up 6.2% year over year. BMO has a significant U.S. footprint, which bolstered its earnings

in 2018 and into the first quarter of 2019. U.S. growth has recently outpaced other countries in the developed world, but the benefits of U.S. tax reform are gradually fading. This is expected to negatively impact earnings into the next decade.

BMO reported adjusted net income of \$1.53 billion in Q1 2019, up 8% from the prior year. Adjusted net income in its US Personal and Commercial Banking segment climbed 42% from the prior year to \$454 million. The U.S. Federal Reserve has been more dovish in its assessment, and odds makers have sharply dropped the chances of another rate hike in 2019.

BMO is trading at the high end of its 52-week range, but it is still a distance from its all-time high set in the fall of 2018.

## Will Royal Bank and BMO stay above the century mark this year?

The dovish turn from central banks did a great deal to alleviate investor anxiety in late 2018, and it has in part fuelled the bull run to start this year. Investors should be concerned about broader headwinds, but the Bank of Canada is confident in its assessment that a recession is very unlikely in 2019. Royal Bank and BMO sit at high valuations today, but there should be enough tailwinds in 2019 to prevent a serious pullback.

### CATEGORY

1. Bank Stocks
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### TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
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