Income Investors: Why I'd Back Up the Truck on CIBC (TSX:CM) Despite Bank Headwinds

Description

The Big Five banks are between a rock and a hard place right now.

As you've probably heard ad nauseam from the talking heads on TV, the economy is continuing to lose steam, and interest rate hikes are entirely off the table over the next year or two.

As the Bank of Canada contemplates whether it should cut rates by 25 or 50 basis points in 2019, one thing we know is for sure is that the "strong" global economy, higher inflation, and the implied need for rate hikes is now the environment of yesteryear.

Today, most economists have tempered their expectations for economic growth in the belief that we've already hit peak interest rates over the medium term.

Given that Canada's GDP growth has been modest for the months ending 2018 (it picked up in January), and the ridiculously high consumer debt levels, the odds of a Canadian rate cut appear to be increasing by the week, just months after Stephen Poloz and company were considering further rate hikes.

With slower economic growth, a static (or falling) interest rate environment, and a yield curve that could invert again (it recently escaped inversion), many investors have been scrambling to update their portfolios to better handle the new environment that we've been dealt.

While the probability of a 2020-21 recession is up for debate, the one thing we know is that the banks are going to continue to be pummeled. An environment with slower economic growth, falling rates, and a flat (or inverted) yield curve is poison for the financials, but with downward revisions already baked into the shares of most banks, it does make sense to do a bit of nibbling now that everybody's pessimistic on the sector.

While the unfavourable environment for the banks is likely to continue for the next year or so, one must remember that the stock market is forward-looking, so any promising pieces of economic data could provide a lift to the banks as they come in well before the earnings-boosting catalysts have the opportunity to take effect.

Everybody realizes that the environment will continue to be unfavourable for the banks. And while their earnings growth numbers will pale in comparison to those posted just a few years ago, most analysts have already lowered the bar for all the banks, especially the ones like **CIBC** (TSX:CM)(NYSE:CM), which has had an incredibly tough time dealing with the macro pressures relative to some of its better-performing bigger brothers.

Historically speaking, earnings misses are rare for CIBC, so with investors having to endure two misses in a row, the stock, as you'd imagine, is incredibly out of favour relative to its peers. The bank already had a significant discount slapped on its shares because of its bad rap, and with two consecutive misses in the books, the discount has become even larger in spite of the promising longer-term developments that I believe are being ignored.

I think the discount on CIBC's shares is unsustainable. The U.S. business is firing on all cylinders, and given the incredibly low expectations that have now been placed on CIBC, I think the stock has the most upside of the Big Five for investors looking to play a rebound in the banking sector.

Foolish takeaway on CIBC and the Canadian banking scene

The ugly macro environment isn't going anywhere for now, but neither is the dividend that currently yields 5.11%. If you're a value-conscious income investor with a five-year horizon, I'd back up the truck today, sit on the shares and collect the dividend that'll keep on rising even with the headwinds.

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Date
2025/07/02
Date Created
2019/04/10
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