



Which Bank Is Better: Royal Bank (TSX:RY) or Scotiabank (TSX:BNS)?

Description

We've all been warned that a recession is on the brink, and that banks could be hit hard when it comes.

But if your investment portfolio is one you want to hold onto to for decades, not months or years, then a recession really shouldn't scare you all that much, unless you're planning to retire shortly.

With that in mind, it's never a bad time to invest in bank stocks, but there are things to consider. Some banks are stronger than others and will see a quicker rebound. While in Canada, it's best to stick with the Big Six Banks, there are still potential risks to look at before making your choice.

Two strong banks I'll be looking at today are **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) to see which is the better buy at this stage.

Royal Bank

Royal Bank is one of Canada's old and largest banks, tied for the top spot only with **Toronto-Dominion Bank**. Beyond the few dips it's taken during times of economic crisis, this stock has continued on a strong blue streak for decades.

While banks can seem boring, there are two points I'd like to make:

1. Boring is *good*!
2. Steady movement doesn't mean the company isn't moving and expanding.

That expansion includes the United States, where Royal Bank has grown in the high-net-worth and commercial banking space. This will provide additional growth on top of its core Canadian banking business, which gives investors and ROE of 30% and should continue for years.

The downside that will likely be seen sooner as opposed to later is Royal Bank's exposure to the Canadian housing market. Loan growth will likely come to an abrupt halt, as Canadians no longer can borrow money. The bank's U.S. exposure should help it though, as should its exposure to European

and Asian markets.

So, while I could go on about recent earnings and growth, with shares [climbing more than 10% in 2019](#), that's not what you should look for with this stock. This is a long-term purchase that will continue to see large growth for years to come.

Scotiabank

Bank of Nova Scotia, better known as Scotiabank, is in roughly the same boat as Royal Bank when it comes to the near future. The bank has seen the same flat-line in its stock as of late but has also seen a steady rate of growth over the last few decades.

Scotiabank has also [expanded outside Canada](#), which should help it should a recession hit. Its 200 million consumers in Latin America should offset any slow in growth that comes due to the Canadian market. The Latin American market now accounts for 40% of the bank's profits. However, Latin America doesn't offer the high returns of the U.S. and includes a higher risk of losses and low growth.

But as for the housing market, the bank's CEO Brian Porter pushed back on a Veritas analyst's urging that investors reduce exposure to Canadian banks. Porter stated Scotiabank has "a lot of buffer," even if there is a significant downturn. He reminded shareholders that the bank's mortgage portfolio is 42% insured and the loan-to-value ratio on the remainder is about 54%, hence the "buffer."

Royal Bank or Scotiabank?

If I'm choosing one stock to buy and hold today, it's going to be Royal Bank. I'm not going to lie: it's going to be hard for this bank in the near future. The company is exposed to both the Canadian and U.S. market, which will likely see a significant downturn come a recession.

However, the bank should also quickly rebound once the recession ends, with higher profits coming out of these large-earning countries.

Scotiabank, however, might not lose as much during a recession due to its international exposure, but beyond that, it'll have trouble keeping up to banks like Royal Bank over the next few decades.

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Author

alegatewolfe

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