



Should You Buy Canadian Bank Stocks Today?

Description

Canada's banks have generated impressive returns for long-term investors, but the group has come under pressure recently amid a wave of short bets and concerns over potential threats.

Let's take a look at the current situation and try to determine whether the Canadian banks deserve to be in your [portfolio](#) today.

Housing risks

The Canadian housing market went on a massive rally in the wake of the Great Recession. Low interest rates gave Canadian borrowers the ability to spend more on a house, while foreign buyers added to the frenzy in the largest urban markets. In an effort to cool the market, the government implemented a series of new measures, including the requirement that borrowers pass a "stress test" that looks at their ability to service the mortgage at a higher interest rate, as opposed to the actual rate the banks are willing to provide for the loan.

The measures appear to have helped take some of the risk out of the market without sending it into a steep decline. The impact the cooling has on the banks varies according to their level of reliance on mortgage sales in larger markets, such as Vancouver and Toronto, but all continue to generate solid results.

Rising interest rates also threatened to push the market into a danger zone. Higher rates would keep more new buyers out of the market while putting heavily indebted borrowers at risk of not being able to afford a mortgage renewal on their home. The decision by the bank of Canada to put its rate hikes on pause has helped ease the pain for those on variable rate mortgages. At the same time, falling bond yields have resulted in lower rates on fixed-rate mortgages this year, giving those who need to renew a chance to get a manageable rate. New buyers are also benefitting.

Overall, the end result should be a gradual stabilization of the housing market rather than a crash, which means that the banks are unlikely to take a huge hit on their mortgage portfolios.

Employment

The average Canadian owes about \$1.80 for every dollar of disposable income, which is high by historic standards. The bigger the number gets, the more trouble might be on the horizon.

Canadian unemployment was 5.7% in April, which is pretty low. Since 1966 the unemployment rate in Canada has averaged 7.63%. Most people who are willing and able to work have jobs, which is good news for the banks. As long as we don't hit a significant economic downturn that triggers a jump in job losses, the profit train should continue to roll along quite nicely for the financial institutions.

Tech threat

Non-bank competitors are moving in on the domain traditionally held by banks, which could pose a long-term threat to the industry. Young people are more comfortable running their lives through their mobile phones, and as they get older their level of trust in the digital technology and the non-bank entities that they deal with could put bank relationships at risk.

The big Canadian banks are aware of the changes in the industry and are investing heavily in technology to keep up with the evolution. Some business will be lost, but the fear that banks will become irrelevant might be overblown today.

The bottom line

The big Canadian banks might not deliver the same stellar returns over the next 30 years than investors have enjoyed in the past few decades, but they should still be attractive holdings for a balanced portfolio. The companies pay strong [dividends](#) that should continue to grow, and the recent pullback in the sector is serving up some stock prices that appear cheap.

For example, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) are trading at 10.3 and 9.1 times trailing earnings, respectively, which are quite low multiples given the current profit levels and stable economy. Both stocks now provide a dividend yield of 5%, so you get paid well to wait for sentiment to improve.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date

2025/07/03

Date Created

2019/06/04

Author

aswalker

default watermark

default watermark