



Buy This Bank Stock Before a 2020 Rate Cut

Description

Canadians should expect a rate cut in 2020's second quarter, according to the latest guidance on the economy from **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). BNN Bloomberg spoke to CIBC's senior economist Royce Mendes about the new report, which states that a Canadian rate cut is likely to follow an expected reduction by the U.S. Federal Reserve by 0.25% before the end of 2019.

CIBC's 2020 vision sees a brighter future

It's no secret among economic circles that when the U.S. sneezes, Canada catches a cold. In the next case of one shoe following the other, the Bank of Canada is predicted to follow our American cousins in a rate cut. But what does that mean for a long-term investors holding shares in the Big Five? The good news for an investor in financials is that the rate cut will mean good things for your bank stocks.

With higher rates having deleterious effects on a range of sectors in the Canadian economy from obvious areas, such as a slowdown in mortgage origination to such things as durable goods orders, there is some indication that lower rates could be on the way. Indeed, Canadian commentators should look no further than the U.S. Federal Reserve head, Jerome Powell, who has stated that a rate cut could follow continued trade tensions.

Indeed, talking about international tensions involving the U.S., Mendes struck a cautionary tone, saying that the multi-front trade war "will filter into the Canadian economy. Eventually, I think Bank of Canada is going to be forced to cut rates in 2020. I think that will be the next move in rates. It's unlikely to be a move higher."

While the Bank of Canada has been characteristically bullish on the domestic economy by holding rates at 1.75%, a cynical market watcher may question whether improvements in the housing market, retail, employment, and the oil patch are [enough to keep the economic situation positive](#). It's hard to see rates holding steady if the trade war rumbles on, especially not if the U.S. moves to cut the rate south of the border.

Hold onto your bank stocks

If you're light on financials, CIBC stock itself isn't a bad play. Paying an attractive 5.43% yield and with fair valuation, the Big Five banker is starting to beef up its U.S. operations in a move that echoes its more America-exposed peers such as TD Bank and Scotiabank. Having announced the buyout of U.S. financials firm **Clearly Gull**, a more U.S.-diversified CIBC is [looking attractive at the moment](#).

As Clearly Gull puts it on its website, CIBC will take over a firm able to "methodically vet potential buyers and investors to uncover those with the vision and financial and operational resources to help (businesses) realize... long-term value." This will give CIBC a boost in a market that has seen competing Bay Street banks add considerable growth to their bottom lines.

The bottom line

By taking over a middle market M&A (mergers and acquisitions) banker already equipped for the U.S. economy, CIBC will get a boost south of the border with cost-cutting synergies and a suite of leads and investment tools already fine-tuned for American business customers. CIBC, and its Big Five peers are looking solid ahead of North American rate cuts and remain among the best long-term dividend stocks on the TSX.

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