This Is the Bank Stock to Choose in July

Description

Rates are lower for longer. This statement has been used for the better part of the last decade and seems to now be the case for the foreseeable future.

Governments tried to play chicken with the world with the goal of raising interest rates until suddenly (*poof!) they decided to change direction and begin cutting rates.

Although unemployment is at multi-decade lows in Canada and the United States and debt-levels are excessive globally, this is the world we live, in so we have to get used to it.

The dream of getting more than 3% on a GIC has died, so where can investors go for decent yield? Utility companies have largely risen as rate hike dreams have died, so those are no longer a great option.

Luckily for investors, bank stocks have pulled back to the point where they are beginning to look attractive. Two banks, in particular, the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) have hit the 5% dividend buy point.

At the moment, if you had the cash to put into both banks, they would each have their positive and negative points.

Both have been hit hard in recent months as compared to the other three large Canadian banks. Both are diversified into markets outside Canada.

In the end, it comes down to where you are more confident. Do you believe in the strength of the Canadian economy or are you more focused on international diversification and growth?

CIBC exposes you to the Canadian economy and the benefits and drawbacks that go with it. BNS leaves you with significant exposure to the emerging markets of Latin America.

Personally, I believe far more in the future growth of Latin America than I do in that of Canada. Canada is a wonderful place to be sure, but it is overleveraged and does not have the future growth profile of emerging markets.

For that reason alone, if I had to choose one company, I would choose BNS over CIBC.

But what about CIBC's growing U.S exposure? To be sure, the bank has expanded its presence in the United States, with net income from US operations up 18% year-over-year in the second quarter of 2019.

But its large exposure to the Canadian market offsets the US success. Canadian provisions for loan losses were up 20% in the same quarter and net income was down 2%.

BNS had positive, albeit small, net income growth from its Canadian banking unit in the second quarter, an increase of 4%. Net income from its international division was also up 4% year over year.

But adjusting for one-time costs from international divestitures and acquisitions, BNS' net income increased by a solid 15%.

The bottom line

As I mentioned earlier, the best strategy is to buy an equal portion of both banks and lock in a better than 5% dividend stream. These banks have a history of increasing their dividends, meaning that your income should also continue to grow as time goes on.

Take advantage of the rough patch and hold for the long run.

But if you want to choose one bank today, go for BNS over CIBC. Its international exposure will be far more valuable for growth as time goes on, especially if there is a downturn in the Canadian *economy.*

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1. Bank Stocks
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2. NYSE:CM (Canadian Imperial Bank of Commerce)
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