TFSA Investors: Should You Trust Bank Stocks Today?

Description

Volatility has reared its head on the **TSX** this month. Onlookers have been rattled by global trade tensions, slowing growth, and the coming Brexit deadline at the end of October. Inverted yield curves for U.S. and Canadian treasuries have sparked recession warnings.

Canadian bank stocks are renowned for their stability and balance, offering a nice split of capital growth and income. However, financials have struggled in the summer and fears of a recession may have some investors second-guessing a bank-heavy portfolio.

Are banks worth your trust in late August? Let's dive in.

A conservative central bank

Canada's financial regulators have honed their conservative reputation over the years. This strategy received praise in the aftermath of the Great Recession as Canada appeared to sidestep the severe damage inflicted on many of its trading partners. Central banks in the developed world are working feverishly to combat a shaky environment right now, and once again, Canada is demonstrating its trademark restraint.

The U.S. Federal Reserve moved forward on a rate cut last month. Analysts expect the European Central Bank (ECB) to cut rates in September. The Bank of Canada held interest rates steady in July, keeping the benchmark rate at 1.75%. Reports earlier this summer suggested that the central bank was not prepared to make a downward move until 2020 at the earliest.

Economic fundamentals have improved on the domestic front in recent months. The housing market has shown promising signs, with sales moving up 12% year over year in July. The BoC projected that investment would pick up in the back half of 2019, albeit the impact of ongoing trade conflicts may throw cold water on that forecast.

Bank earnings on the horizon

Canada's top banks are set to release earnings at the end of the month. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) **Bank of Montreal** (TSX:BMO)(NYSE:BMO) will release earnings on August 29 and August 27, respectively.

TD Bank stock has dropped 5.4% over the past month, while BMO shares have fallen 5.2%. Both banks are noteworthy for their large U.S. footprint. TD Bank has the largest presence relative to its Canadian peers, and is in fact one of the largest banks south of the border as well.

TD Bank had an RSI of 31 as of close on August 16, putting it just outside of technically oversold territory to close out the previous week. BMO, on the other hand, had an RSI of 29 coming into this week of trading, putting shares into that technically oversold threshold.

Both carry nice value ahead of their respective earnings releases. U.S. growth has remained robust in the face of headwinds, and U.S. segments have fuelled earnings growth at both banks in the first half of 2019.

The value is also solid when we consider the dividend payout. TD Bank currently offers a quarterly dividend of $0.74 per share, representing a 4% yield. BMO last hiked its quarterly payout to $1.00 per share, representing a 4.4% yield. These are attractive levels for these stocks, so value investors should consider pulling the trigger ahead of earnings.

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2. NYSE:TD (The Toronto-Dominion Bank)
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