Top 2 Reasons RBC (TSX:RY) Stock Missed Earnings

Description

Although **RBC's** (TSX:RY)(NYSE:RY) share price has soared almost 30% in the past five years, the stock may see some weakness this quarter due to a dull earnings report. On Wednesday, the stock reported earnings of $2.22 per share for the quarter ended June 30, lower than analyst expectations of $2.31. Although personal and commercial banking business increased volume by 7%, fixed-income trading in the U.S. dropped by 16% and revenue from client asset investments dropped 24%.

Not only are clients reportedly investing less in U.S. assets, but they are also spending less, in general, in both fixed income and equities. These are troubling signs for the global economy.

The stock rose nearly 1% on market open, potentially due to the 3% dividend increase to $1.05 per share. However, the share price strength may not be as muscular as dividends throughout the quarter. Overall, the earnings report reflected a disappointing performance in critical banking businesses.

Smart investors should see the weakness as a buying opportunity in strong dividend stocks during a bear market.

Here are the two reasons why RBC missed earnings goals this quarter.

Top two reasons why RBC missed earnings

Interest rate uncertainty: The recent U.S. Federal Reserve decision to decrease interest rates came as a surprise to many analysts, including those who trade securities in the financial sector. Less-predictable interest rates create more challenging market conditions in which to optimize investment returns. As a result, the Royal Bank of Canada reported lower earnings in capital markets and investor and treasury services.

Trade war tensions: The trade war has also lowered RBC's profit in capital markets and investor and treasury services. Stock and bond markets have been unusually volatile since U.S. president Donald Trump entered office in 2017. His aggressive negotiation tactics have been moving markets to extremes. If someone doesn't put a leash on him, his words may end up causing the next stock market crash.

Higher risk-weighted assets

RBC reportedly decreased its liquidity risk according to the Basel III CET1 ratio, which currently stands at 11.9%. Although positive news, higher risk-weighted assets offset this improvement in liquidity risk. The higher risk weighting may be due to the abnormal market volatility caused by interest rate uncertainty and trade war tensions.

Luckily, RBC liquidity is well above the minimum Basel requirement of 4.5%. Nevertheless, the effect of the increased market volatility on capital requirements is a concern for the banking industry as a whole. If the trade war tensions continue to run hot and fixed-income interest rate uncertainty augments the market swings, cash-strapped banks may be the hardest hit.

Increased costs and taxes

However, minor compared to the trade tensions and the interest rate uncertainty, an increase in staff-related costs and technology also contributed to RBC's lower-than-expected earnings announcement. The bank is not only suffering from lower investment revenue, but it also faces higher inflation. Technology and payroll are taking a bigger bite out of income, dragging down profit margins.

Foolish takeaway

The market volatility is bound to create problems in the banking sector. There is no reason to panic. Earnings per share are so strong, and the banks are so well secured with capital that investors should not worry about entrusting their retirement in banking stocks. If any stock can get through this market volatility, it is banking.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Top TSX Stocks

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Top TSX Stocks

Date
2025/08/23
Date Created
2019/08/21
Author
debraray