Why Worried Investors Should Back Up the Truck on Scotiabank (TSX:BNS)

Description

On the precipice of a possible North American recession, investors may want to start thinking about adding solid, defensive stocks to their long-term dividend portfolios.

While Latin American banking might not be the obvious choice for Canadians looking to add safety to a basket of passive-income stocks, one of the country's Big Five money lenders can offer domestic shareholders exposure to the growth afforded by the Pacific Alliance.

Here's today's hot pick of the Big Five banks

Scotiabank (TSX:BNS)(NYSE:BNS) gives investors direct access to growth in the Pacific Alliance, making it defensively diversified. Chile, Colombia, Mexico, and Peru make up the Pacific Alliance, so-called because all four nations border the Pacific Ocean. As an economic bloc, the Alliance is committed to the integration of goods and services as well as free movement and capital.

It works, with a combined population of 210 million citizens and a 35% contribution to the region's gross domestic product.

The dividend on offer from Scotiabank is suitably large at a shade over 5% and offers a nice, little sweetener for long-range investors looking to glean some upside from that Latin American growth. Indeed, a new portfolio focused on passive income could be built around a strategic investment in Scotiabank.

Investors still wary of banks and eyeing a potential contraction in the country's housing market should consider taking a look at the unique position Scotiabank has taken up. Mortgages make up a sizeable chunk of Scotiabank's balance sheet, which accounts for some concern on the part of fence-sitters.

However, in terms of capital, liquidity, and bad loans, Scotiabank is fairly well insulated with its mortgage portfolio 42% insured, and diversification coming from those Pacific Alliance operations.

Now more than ever, it’s time to invest in quality

A solid Q3 makes Scotiabank a safe bet with profits rising to nearly $2 billion and that already juicy dividend getting a timely hike. Newcomers to Canadian banking stocks, or indeed to the TSX itself, have a strong choice here as a cornerstone investment for a TFSA or retirement nest egg.

For seasoned investors on the TSX who haven’t given Scotiabank much thought before, the Big Five ticker would slot in nicely alongside those utilities shares, or even alongside a Bay Street banking peer.

This is made possible by that geographical diversification, but also by Scotiabank’s balance sheet and growth outlook. In short, Scotiabank is a surprisingly defensive play in a crowded space that could break out as investors seek quality in their passive-income purchases over the kind of short-term upside promised by riskier industries.

The bottom line

In times of high economic stress, the Big Five banks take turns being investors’ least favourite. This year has certainly seen some share price turbulence for Scotiabank, only for the Bay Street lender to find favour again with shareholders seeking some respite from the slew of worrying headlines coming out of the financial sector.

Big bankers such as Scotiabank, especially ones with geographical spread, could be just the ticket to outrun a deep market correction.

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