What These 2 Big Six Banks' Earnings Told Us

Description

As the Canadian Big Six banks have started to report their earnings, analysts and investors alike are watching closely. As further economic pressure continues around the markets, analysts aren't expecting a lot of growth. That's especially as Canada announced a yield curve inversion.

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Now that the results have started to come in, let's take a look at what the earnings from both **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) can tell us about what investors should start to expect.

Royal Bank

There was both good and bad news coming out of Royal Bank's earnings last week. On the one hand, net income rose 5% to $3.3 billion, and the bank announced it would be keeping a tight hold on costs, pulling back on trading risks that should counter any future losses, as the banking industry continues to slump.

This would also help the slump in the company's revenue, which fell to $2.03 billion, down 5.7% from the same time last year. This comes from lower investment-banking fees coupled with slow stock sales and less acquisitions around the world, as the company prepares to hunker down.

So, while the news isn't stellar, it isn't that bad either. Given that we likely won't see a recession like the one a decade before, Royal Bank remains confident that it will continue to perform at or above the market moving forward, according to head of RBC Capital Markets Doug McGregor.

CIBC

CIBC actually surprised investors with its recent results that weren't exactly amazing but weren't as bad as expected. Revenue came in at $4.73 billion jumping 4%, with earnings creeping up by 1% compared to the same time last year. As Canada's most Canadian bank, many fear CIBC could be headed for more trouble, so it was good news to hear that its United States commercial and wealth management segment saw growth of 6% during this time.

This expansion into the U.S. will certainly help, as CIBC possibly drops as Canadian loans and the housing market goes down. The bank made a US$5 billion acquisition in the U.S. in the last two years, and these will certainly help the bank hedge against a poorly performing Canadian economy.

Again, the results aren't excellent, but they're better than what analysts expected. I don't think investors should expect the company to come through as strongly as Royal Bank, but if you're worried about the strong dividend yield offered by CIBC, I don't think you need to be that concerned.

Foolish takeaway

Analysts trimmed back their predictions as the banks started their reports, but that has left room to be pleasantly surprised by Canada's Big Six banks moving forward. That means shares will likely remain on the low end for the time being, which represents a great time for investors to buy shares of strong companies that are likely to see a huge rebound after the recession passes.

The main thing here to take away is that as earnings prove to not be as bad as once thought, that could mean the recession won't be that bad either. In fact, analysts believe after a series of dips, the recession will see another dip that should rebound far quicker than the last recession of 2009. In the meantime, these banks offer strong dividends that will provide future income for decades and have continued to increase even on the edge of a recession.

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