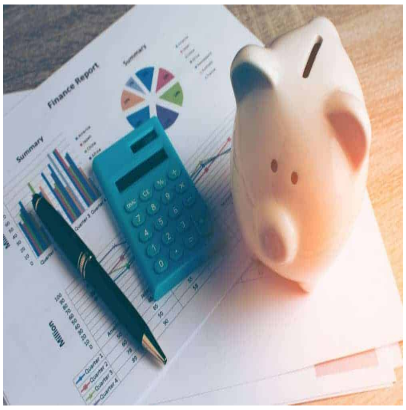

What’s Next for Bank Stocks?

Description

Canadian bank stocks have been on an incredible run since the last recession, but as we reach the peak of the economic cycle, is there any steam left in the stocks?

Investors may be wondering what they should do with their bank stocks, whether they should trim their positions, sell all of them, or just wait it out, holding for the long term.

It’s natural to have these concerns especially with the increased risk of a recession around the corner, but Canadian bank stocks specifically are very well run and even better capitalized.

What has hurt the banks lately is the uncertainty in the domestic bond markets and whether or not the Bank of Canada is going to move to cut rates any time soon.

Interest rates are extremely important to the banks, as they pretty much determine the net interest margins they will be able to make.

U.S economic uncertainty has also caused a slowdown in bank stock appreciation, especially for companies that have a large retail banking presence in the U.S.

Furthermore, the slowdown in the housing market continues to have an impact on the mortgage market, which is the banks’ number one money maker.

Nonetheless, they are still some of the top investments on the TSX, and today, the best bank for its buck is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

CIBC

CIBC is the top choice for investors today for a number of reasons. For starters, it has the best value available of all the large banks. Its price-to-earnings ratio is just 9.24 times, giving it an earnings yield north of 10.5%.

Its price to book is also reasonable at less than 1.4 times. This is even more impressive when you see the company has a five-year average return on equity north of 18%.

On the operations side, CIBC is also one of the better-positioned banks, since it has less retail exposure to U.S. markets than many of its peers.

Its capital markets division is poised for growth as we enter another quarter of uncertainty in the markets.

Uncertainty and higher volume in stock markets leads a lot of investors to increase the trades they are making, as they try and rebalance their portfolios for the new developments coming to light. This directly increases the revenue for banks with capital markets segments.

The growth will provide a small boost to the bottom line, as capital markets makes up roughly 15% of CIBC's net income.

On the retail side of things, CIBC has made impressive strides the last few years to increase its satisfaction among customers and consequently increase the number of products per customer. This should lead to meaningful residual income over the years, providing the company with superior growth.

CIBC is a top bank stock, especially as we move toward more uncertainty. The knowledge in the market of the strength of Canadian banks makes the stocks less susceptible to fleeing investors driving the share price down.

In addition, many investors that hold smaller bank assets could rotate into the larger banks for increased safety upon fear in the markets, and this would soften the blow somewhat, as large Canadian bank stocks are some of the safest assets in the world.

CIBC's dividend yields an attractive 5.3% at a payout ratio of 48%. Its five-year average payout ratio is consistently between 45% and 50%, which means it's perennially stable.

It's worth noting that on an annualized basis, the dividend has been increased by roughly 44% since 2014, an incredible figure.

Bottom line

Investors looking for a bank stock to add to their portfolio should strongly consider CIBC. It has been improving its operations and making incredible returns. Most importantly, however, its stock is relatively cheap, which will provide investors with the potential for plenty of share price appreciation long term.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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