What Makes Canadian Banking Stocks a Better Buy in a Recession?

Description

Are Canadian banks recession-proof? I hear this question from many investors who fear taking exposure to stock whose fate is tied with the economy when the water gets rough.

The logic is that when the economy faces a tough time, people lose jobs and companies restrict their spending, and as a result, banks that make money by lending suffer.

Due to the fears of recession this year, it's been tough to make an investment case for Canadian banks . As the macroeconomic environment began to deteriorate due to the escalating trade war between the U.S. and China, investors began to avoid banking stocks.

The risk of recession is still very present, especially after the release of more weak economic data from the U.S. this week.

When it comes to Canadian banking stocks, people usually don't realize that they operate in an oligopoly where competition is limited, allowing top banks to command a solid market share.

With that, these lenders also operate in a very sound regulatory environment where it's tough for them to be too aggressive on risky lending.

That was the reason that Canadian banks remained largely unscathed during the 2008 Financial Crisis that wiped out many big U.S.-based lenders.

Ability to pay dividends

On the other hand, if you're a long-term investor who's aiming to make enough return to beat inflation, then Canadian banks offer a good avenue, as they are among the top dividend-paying stocks in Canada.

Shares of **Royal Bank of Canada** (TSX:RY)(NYSE:RY), for example, could provide safety in an uncertain economic environment. RBC is Canada's largest lender with a robust presence in the U.S.

During the past five years, its stock has gained 32%, including dividends, far outpacing the benchmark **S&P/TSX Composite Index**, which grew only 14% during this period.

RBC is one of Canada's most diversified banks, including worldwide operations in asset management and capital markets and ownership of Los Angeles-based commercial and private lender City National Bank.

That diversification has been a major plus for RBC to provide stability to its income at a time when other small and localized banks are suffering.

In the recent earnings, RBC's Canadian division posted an 8% jump in income to a record $1.61 billion, representing almost half of overall profit at the bank. Wealth management earnings rose 11% to $639 million.

Bottom line

Stocks like RBC are unlikely to provide you a double-digit growth each year, but they are the slow-moving dividend stocks that will keep sending you dividend cheques quarter after quarter even if the economy hits recession, helping you ride through a tough time.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/18
Date Created
2019/10/03
Author
hanwar