2 Banks That Could Make You Rich During a Recession

Description

If you were to believe what Bloomberg Intelligence is saying, investors should focus on the **TSX**, which ranks number one among the global stock markets. Based on the group's equity scorecard, the time is right to invest in Canadian stocks heading into the end of the year.

In the event of a recession, the Top Five Canadian banks could take a big hit. However, it could create an opportunity to buy shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

CIBC and Scotiabank are banking stalwarts that were able to endure recessions before. You can slowly switch to both stocks if the prices drop. Unlike in the U.S., however, Canada's banking system was able to contain the risk of the financial sector contagion in the recent recession.

Ever ready

As early as April this year, Scotiabank CEO Brian Porter said the bank is not only "downturn ready" but can also mitigate the risks posed by the housing market. He was quoted as saying, "We believe there's a lot of buffer in there for any significant downturn. There are always going to be those who take an opposing view, and we'll prove them wrong in the long term."

Porter wants to stress that while Scotiabank's mortgage portfolio is the largest asset class on its balance sheet, 42% are insured, and the loan-to-value ratio of the remaining accounts is about 54%. Thus, it provides a large buffer.

The CEO went on to say that he's not predicting a recession. Nonetheless, Scotiabank is downturn ready and very much comfortable with its capital, liquidity levels, and the quality of its assets.

Strong as ever

CIBC also held a shareholders' meeting after the first quarter. The bank's CEO Victor Dodig maintains the same view as his Scotiabank counterpart. He said that Canadian banks were well positioned to navigate any bumpy road ahead.

Analysts monitoring CIBC are looking for signs of deteriorating loans knowing the bank's mortgage growth or year-over-year gains through 2017 were at a high of 12%. However, the bank's retiring CFO Kevin Glass was quick to say that CIBC is comfortable with its portfolio, and that they're performing exceptionally well.

Glass added that CIBC's loan and deposit growth are solid, and they continue to be very well managed. So far this year, CIBC is up 13.5%.

This bank stock also pays 5.23%, which the highest among the Big Five banks in Canada. That price could drop in a recession, however.

However, once Canada recovers — and it most certainly will — bond yields will go up, and the financial sector performs well. If the financial stocks are doing well, the **TSX** will follow suit. The performance of bank stocks has an influence on the stock market in no small degree.

Time your investment

The intensifying trade disputes among major trading blocs could eventually lead to a recession. Is the banking sector ready if the economy were to fall into recession? The heads of Scotiabank and CIBC have spoken.

Both banks are ready to weather an economic downturn. You can buy on the dip if the prices fall and realize gains when the stocks make a huge comeback.

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