Bank of Nova Scotia (TSX:BNS): A Top TFSA Stock That's Gaining Momentum

Description

There has been a marked shift in sentiment about banking stocks during the past two to three months. At the height of U.S.-China trade tension, investors shunned some of the top banking stocks on fears that the global economy would sink into a recession and the lenders won't be able to escape a slowdown.

But that scenario hasn't played out as of yet. There has been a considerable improvement on trade negotiations between the two global powers, and expectations are that a deal is imminent. With this threat receding, there are also strong signs that the economies of both the U.S. and Canada are in a comfortable zone where both employment and consumer spending remain strong.

With that cushion available, central banks in North America have moved to the sidelines and are unlikely to cut interest rates anytime soon. Banks are very sensitive to interest rate changes, as lower rates cut their margins on products, such as credit cards, lines of credit, and mortgages.

If you want to benefit from this changing macroeconomic environment and use your Tax-Free Savings Account (TFSA) to add some quality banking stocks, then I will recommend buying **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). At the current level, BNS stock offers a good entry point to strengthen your TFSA portfolio.

The third-largest lender by the market size is fast recovering its lost ground and has surged about 13% in the past three months. That rebound comes after the more than 15% plunge in its share price last year.

Aggressive expansion

That pullback was largely driven by investors' concerns that the lender's aggressive acquisition drive would erode profitability. But BNS's recent earnings show that lender's expansion strategy is paying off.

In the most recent quarterly earnings in August, rising international banking profit, and lower expected loan losses helped to fuel strong third-quarter results. Profit rose 2%, or 9% when excluding one-time losses, suggesting its growth strategy, which included $7 billion in acquisitions and the sale of businesses in some 20 countries, has begun to improve the bottom line.

Scotiabank also predicts that its acquisitions will contribute more to profit this year and in 2020 than executives had expected.

The other reason that makes Scotiabank stock a great TFSA play is its rising dividend.

If you’re a long-term investor and seeking to earn stable dividend income, the quarterly performance shouldn’t matter much. Over the long run, Scotiabank has proven to be a great investment with its growing payouts.

The lender has returned cash to investors every year since 1832, while it has hiked its payouts in 43 of the last 45 years. After a 2% hike in January, Scotiabank again raised its quarterly dividend by $0.03 to $0.90 per share.

Bottom line

Trading at $76.28 at the time of writing, BNS stock yields 4.7% and is slowly rising to its five-year peak that it hit in late 2017. I think this is one of the best times to add this solid dividend stock to your TFSA, as the lender recovers from the weakness and offers good potential of capital gains.

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