Should You Buy Royal Bank of Canada (TSX:RY) Stock in 2020?

Description

The **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is Canada's largest bank by market cap. With $1.4 trillion in total assets and $46 billion in annual revenue (fiscal 2019), it's a financial behemoth.

Although RBC isn't the fastest-growing Canadian bank, it's one of the most stable. Due to its domestic market focus, it enjoys the full benefit of operating in one of the world's safest and most regulated financial services industries. This is in contrast to a bank like **TD**, whose U.S. exposure powers growth but also presents certain risk factors.

Heading into 2020, the Canadian economy is giving mixed signals. Although the 1.3% GDP growth reported in Q3 wasn't bad, the 71,000 jobs lost gives pause.

In this environment, investors may have questions about a bank like RBC, whose fate is intimately connected to that of the Canadian economy. The following are a few pros and cons to keep in mind.

Pro: It's among the safest of Canadian bank stocks

RBC is one of the most domestic-oriented Canadian banks. As a result, it's one of the safest. The Canadian financial sector is highly regulated, and the Big Six banks operate with little serious competition. You may have heard about the risks facing the Canadian finance industry stemming from poor consumer credit.

That's certainly a valid concern, and is driving PCLs higher at banks like RY. Nevertheless, Canadian banks have a track record of weathering the *most serious* financial crises unharmed. Over the past 150 years, the U.S. banking system has faced several crises, while the Canadian system has faced none.

Con: It has little earnings growth potential

RBC's domestic focus certainly provides a measure of safety that TD and **Scotiabank** lack. However, it's also a major barrier to growth.

Canadian banking operations rarely grow at more than 2-3% year over year, and with the Big Six already dominating the entire country, that's unlikely to change.

Pro: Its earnings growth is usually stable and dependable

To continue with the topic of earnings growth, it's worth pointing out that while RBC's growth is slow, it's generally stable and predictable.

Again, this comes down to the bank's domestic focus. Being focused on the highly regulated Canadian market, RBC isn't exposed to the vagaries of the U.S. financial system (like TD), or developing markets (like Scotiabank), which makes it a classic "boring but safe" bank.

Con: It missed on earnings in its most recent quarter

A final point to mention about RBC's earnings is that they missed in Q4, declining 1% year over year. That's not a huge decline, but it goes to show that the bank is being affected by consumer credit concerns, as an increase in PCLs contributed to the miss.

Overall, it's a pretty mixed picture for RBC, reflecting the state of the Canadian economy as a whole. On the one hand, it's a fairly safe bank that investors can depend on for its dividend. On the other hand, growth is slow, and the stock probably won't deliver fantastic gains.

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