Get Ready to Buy: 2020 Will Be the Year of Cheap Bank Stocks

Description

With **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **CIBC** reporting reduced profitability against a backdrop of recession signals, the Big Five are showing their cyclical roots. It's no secret that Bay Street's finest lenders have been strengthening their balance sheets, but with provisions for bad loans leaping by over 50% in one case, the last financial quarter of the decade gives the bears plenty to think about over the holidays.

Restructuring charges have also been a worry, with three of the Big Five banks taking a hit as they downsize. Weakening against last year's data, the Canadian banking sector is clearly looking at a rough 2020. Growth is likely to continue at a reduced rate for the first year of the new decade, as international stressors weigh on the economic landscape and the credit market weakens.

Get ready to buy on weakness

The last couple of weeks have already seen share prices dipping across the sector: CIBC, **Bank of Montreal**, and TD Bank all dipped alarmingly at the start of the month, for example. Another dip next quarter could bring similar value opportunities.

However, strict value investors could have an even better value opportunity coming up, as current stockholders ditch Big Five shares after what is likely to be a weak first quarter in the new year. Indeed, given a grim outlook for 2020, long-range shareholders may see Canadian banks approaching recent record lows, making for some quality bargain hunting.

Personal debt and bad loans are likely going to be an ongoing concern next year, with insolvency already at decade record highs. TD Bank and CIBC had an especially bad fourth quarter with TD Bank profits down 4% year on year, and CIBC falling 6%. Both banks made provisions for bad loans, with U.S. interest rate cuts also affecting the American segments of Canadian banks.

Slowing growth could make for deeper discounts

Growth in the past has come from several places: rate increases had been filling the Big Five's sails, with more increases expected at one point, while the U.S. and other foreign markets accounted for increasing revenue. Meanwhile, retail banking was ticking over nicely back home and domestic wealth management was also doing well. The biggest letdown has arguably been the interest rate holding pattern.

The last quarter was generally weak for Canadian banks, and this was largely fed by uncertainty in the markets. Downsizing and preparation for bad loans stood out as defining sore points, reminding investors of the cyclical nature of these kinds of investments. And while banks stocks are not often seen as growth assets, slowing expansion will likely continue to erode some of the Big Five's appeal.

The bottom line

Bank investors should get ready to snap up some bargains at the start of next year after what is likely to be another weak quarter. TD Bank is looking like a buy on weakness, and as one of Canada's two largest banks, it's got the size and assets to assure quality over the long term. Meanwhile, CIBC pays a richer yield and also offers a play on weakness in the new year.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/09/07
Date Created
2019/12/23
Author
vhetherington