Dividend Investors: A Top Canadian Bank Stock to Buy Now

Description

Are Canadian banks a good buy this year? I hear this question from many investors who find these top dividend stocks too boring, especially when they haven't produced impressive returns in this ongoing rally.

The uncertainty about bank stocks' outlooks has grown further after the Bank of Canada raised an alarm bell about the economy, which is entering a slow phase after the prices of commodities declined and manufacturing failed to pick up. That scenario raises the possibility for the central bank to cut interest rates — a development which is considered a negative for banks, as they make money by lending.

But when it comes to investing in top Canadian banking stocks, people usually don't realize that they operate in an oligopoly where competition is limited, allowing 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, which wiped out many big U.S.-based lenders.

But 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.

Rewarding for investors

According to a recent note by the **Bank of America**, the second half of this year could be more rewarding for investors in Canadian banking stocks.

“We believe that the group is positioned for improved performance in 2020, as margin and credit headwinds to EPS growth fade, while macro factors become less of an overhang,” the report said. “That said, we expect the first half of the year to be a ‘show-me’ story for the banks, as investors look to gain comfort that the uptick in credit metrics witnessed last year was a mere normalization (we are in this camp) vs. a start of a more material worsening in credit trends.”

Among the group of five top Canadian banks, 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 42%, including dividends, far outpacing the benchmark S&P/TSX Composite Index, which grew only 17% 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.

Bottom line

Bank 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 is in weak phase, helping you ride through a tough time.

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