



Why Bank of Montreal (BMO) Stock Price Fell 9.6% in February

Description

Fears about the spread of the coronavirus impacted all stocks across the board in February, as evidenced by the sharp drop in the **S&P/TSX Composite Index** (down 6.1%). While in some cases these stock price declines are more substantiated than others, in general, when the market reacts to an event like this, it is usually [an opportunity to buy some quality stocks at attractive valuations](#).

Bank of Montreal (TSX:BMO) stock price reacted to this general selling pressure of course and closed the month 9.6% lower. But is there anything from a company-specific standpoint that would justify this selloff or is there something we can look to that would suggest that this selling pressure is overdone?

Let's take a look below:

Bank of Montreal stock price underperforms the market as investors flee to safety

In the grand scheme of things, we have seen that Canadian banks have been beacons of safety and strength. But today it appears that after a period of outperformance, banks are seeing many risks piling up to the point that leave them vulnerable.

Bank of Montreal, in particular, is especially [struggling with escalating provisions for credit losses](#) as the bank experiences higher Stage 3 impaired loans, specifically in transportation finance and the oil and gas sector (mostly U.S. natural gas accounts).

In the latest quarter, provisions for credit losses (PCLs) were significantly higher than expectations, coming in at \$349 million, which is 154.7% higher than the same quarter last year and 38% higher sequentially.

This is a meaningful trend that illustrates the increased risk that Bank of Montreal and Canadian banks in general are facing to some degree at least.

Bank of Montreal stock price falls despite having among the lowest exposure to Canadian personal and commercial banking

Bank of Montreal is Canada's fourth-largest bank by market capitalization, with one of the least significant exposures to the Canadian personal and commercial banking (P&C) industry.

This affords the Bank of Montreal some respite from the expected difficulties in the Canadian economy, which is growing at a comparatively slower rate than the GDP of the U.S. But this was not enough to stop the decline in February, as PCLs accelerated and made investors nervous about the future.

Loan growth is slowing pretty much across the board, and with the coronavirus accelerating, this could put further pressure on an already vulnerable situation.

Foolish bottom line

The Bank of Montreal stock price underperformed the market in February, with both being down by a significant degree. Given the risks the company faces going forward, I do not view this stock price decline as an opportunity to buy.

I think that the Canadian banks have a rough few years ahead of them, and Bank of Montreal stock price remains vulnerable.

In closing, I would like to remind foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth.

Blending this long-term focus with a keen eye for short-term stock mispricing, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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