2 Well-Run Banks Are Your Insurance in a Long-Lasting Recession

Description

Global financial markets are far from stabilizing due to worries over the fast-spreading coronavirus outbreak. Major stock exchanges, including Canada's TSX, are in a roller-coaster ride.

The new virus is inflicting damage to the global economy. Governments and central banks are planning aggressive moves to contain the economic fallout. The situation is fluid; investors are looking for safe havens to quarantine their investments.

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are among the top options if you want insurance in a long-lasting recession. You have the top two Canadian banks, well run and formidable, to endure a downturn.

Big Two banks

Despite the Q1 fiscal 2020 outperformance by Canadian banks, analysts think it won't be as rosy the rest of the year. For the quarter ended January 31, 2020, RBC grew net income by 11% compared with the same period in 2019. Management is citing record earnings in Capital Markets as the growth driver.

Also, the bank is displaying robust earnings growth in the personal and commercial banking segment. Its investment-banking division is doing pretty well in Canada and the U.S., while its platform is growing in Europe. Because of this extensive presence, underwriting and advisory fees rose 81.7% to $627 million.

Notably, RBC's domestic mortgage portfolio accelerated for four consecutive quarters. In the most recent quarter, the 8.6% increase in mortgage volume was the biggest in at least five years. Now that RBC is pulling away from rivals in the mortgage department, it should benefit from the revival of the housing market.

Toronto-Dominion also saw a rise in its domestic mortgage balance during the first quarter of this year. The volume grew by 3.5%, which is the most significant year-on-year jump the country's second-largest bank ever reported since 2016. However, the mortgage book is not the only positive coming out of this bank.

During the first quarter, TD's total revenue and net income rose to $10.6 billion (+6%) and $3.1 billion (+4%), respectively, versus the same period last year. Total assets are now close to $1.5 trillion, which is 3% higher compared to the level in 2018.

If not for the rising operating expenses, analysts believe TD can still improve revenues, organic and inorganic. The bank has the advantage because of its diverse geographical presence. However, the rising loan loss provision is a concern among investors.

Brand Finance named TD as the number one brand in Canada and the 13th most valuable banking brand globally. Other honours last December include America's Most Convenient Bank and top-ranked bank in the J.D. Power 2019 U.S. National Banking Satisfaction Study.

Enduring institutions

RBC and TD have been paying dividends since 1870 and 1857, respectively. The dividend payouts were inclusive of the periods during World War I and World War II. The banks also survived the global recessions of 1975, 1982, 1991, and 2009.

The coronavirus is the latest challenge, and it's hard to determine the economic impact, as it continues to evolve. If the recession scenario plays out, you know where to shift your portfolio for safety.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
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