TSX Bank Stocks: Should Canadians Buy Before a Recession?

Description

It was reassuring to see Canadian bank stocks rally at the close Friday. But will the rally last, or did it come too soon? The fact is that the pain in the markets is likely nowhere near over. Worse, it could precipitate a full-blown recession.

So, should Canadian investors really be buying bank stocks at the moment? Which TSX bank stocks should investors buy, sell, or hold before a potential downturn? Let's take a look at some of the best and find out.

Are these the best Canadian bank stocks right now?

TD Bank is of note in particular. It's an internationally strategic moneylender. It's got a big presence in the United States. And its dividend is secure. Also of note was last week's infusion of $1.5 trillion into banks in the United States. That alone is a sign that this sector is going to be heavily protected during the bear market.

So, TD Bank has the scale and the U.S. exposure to make it a buy for casual banking investors. But the oil slump could prove calamitous for TD Bank. Low oil isn't good for Canadian companies period. But it can be especially lethal for large energy lenders. Banks are cyclical by nature, and the oil slump could further jeopardize those Big Five shares in your Canadian portfolio.

CIBC is one of the less globally exposed of Canadian bank stocks. This puts it in a slightly stronger position than its more international competitors. This name rallied 19% at the end of last week's bloodshed. The dip and the rally didn't even out, though. The stock still finished down 14.7% overall for the week.

2020 is a contrarian buffet for bank stocks

Recent losses have pushed CIBC's dividend yield up to almost 7%. This week could see TSX bank stock investors given the opportunity to lock in even more. Two main metrics to keep an eye on are the reaction to the second Canadian rate cut and oil prices. This in addition, of course, to the spread of the coronavirus.

Is **Scotiabank** recession proof? This TSX staple is strongly tied to the housing market. Will first-time buyers be likely to seek mortgages during a recession? Will homeowners be more likely to skip out on payments in a downturn? The signs aren't good. The other big concern here is that Latin American exposure. Investors should keep a close eye on how members of the Pacific Alliance cope with the virus outbreak.

Every twist and turn of the coronavirus outbreak is impacting Canadian bank stock prices. Yes, Scotiabank rallied 16% at the end of last week. But it still finished down 11.8% overall. As with every other sector, it's time for contrarians to buy them low and trim them high.

The bottom line

Now is the time to sell underperforming TSX bank stocks when they rally. It's also the time to buy the dips. But the market is far from settled right now. This means that if you're buying those CIBC shares while they're on sale, buy in stages. Investors should get ready to increase their positions in their favourite Canadian bank stocks on further weakness.

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