Stay Calm and Profit From the Latest Bear Market

Description

The market-leading **Dow Jones Average** recently suffered its largest one-day plunge ever on coronavirus and recession fears. The index is down by a whopping 29% since the start of 2020.

Stock markets around the globe have followed suit, and the TSX has also suffered significant losses. The **S&P/TSX Composite** has lost 28%, seeing it cross into a bear market.

While there is worse ahead for stocks, primarily because of the uncertainty triggered by the coronavirus, it is important to keep a cool head and ignore the sensational headlines.

Those losses have created an opportunity to acquire quality businesses that possess strong fundamentals at attractive valuations. One that stands out is Canada's largest lender **Royal Bank of Canada** (TSX:RY)(NYSE:RY). It has dived 18% since the start of 2020, making now the time to buy.

Solid earnings

Like its peers, Royal Bank reported some solid fiscal first-quarter 2020 results. Those included an 11% year-over-year increase in revenue and net earnings as well as a 12% spike in diluted earnings per share (EPS).

Importantly, despite the difficult environment that existed before the coronavirus pandemic, Royal Bank was able to boost its return on equity (ROE) by 0.9% year over year to an impressive 17.6%. That makes it one of the most profitable among Canada's Big Six banks.

This robust result can be attributed to strong loan growth for Royal Bank's Canadian operations, an uptick in fee volumes for U.S. wealth management, and increased loans as well as fees from its capital markets business.

Strong fundamentals

Royal Bank also reported a common equity tier one capital ratio of 12%, which is above the regulatory minimum and indicates that it is well capitalized. Canada's largest lender also has a solid balance sheet and quality credit portfolio. The first-quarter gross impaired loans ratio fell by 0.01% year over year to a low 0.45%, and the value of impaired loans has been trending downward since the second quarter 2019.

These numbers highlight that Royal Bank possesses solid fundamentals, meaning it will bounce back solidly once the coronavirus pandemic comes to an end and the economy recovers. They also indicate that the bank can weather a concerted downturn, making it a lower-risk investment during a difficult time for many businesses.

Nonetheless, there is short-term pain ahead.

It is likely loan defaults and impaired credit facilities will rise, impacting earnings. There could be a broader decline in the credit cycle in Canada, as housing prices deflate and heavily indebted households struggle to meet their financial obligations as the economy worsens.

Royal Bank has employed strategies that will mitigate the negative effect of a broader decline in credit quality. These include insuring 24% of its Canadian residential loans and maintaining a conservative loan-to-valuation ratio of 53% for its total residential lending portfolio. That indicates there is plenty of room to absorb a decline in housing prices and credit quality because of a recession.

Foolish takeaway

Royal Bank has successfully weathered a several economic crises, including the Great Recession of 2008, and it keeps unlocking value. Since 2008, it has delivered a return of 166%, including dividends, which is a compound annual growth rate (CAGR) of just over 8%. Royal Bank's regular dividend, yielding a juicy 4.9% after the latest sell-off, will reward investors as they wait for its stock to rebound.

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