Canadian Bank Stocks: What Now?

Description

It looks like Canadians may actually have some good news coming their way after well-over a month of uncertainty. While the **S&P/TSX Composite** may still be down more than 25%, in just the past week it's managed to gain almost 20% — its largest drop in over a decade. Bank stocks have also seen a lift lately, so let's look at what you should be doing with them as an investor.

Why now?

The Canadian federal government and Bank of Canada have both put forward plans to put cash back into the pockets of Canadians. The Bank of Canada is footing the bill to purchase $500 million a week in mortgage bonds and acquiring $50 billion in government-insured mortgages.

Meanwhile, the Canadian government announced a number of measures that include up to $2,000 for self-employed persons whose income is affected by COVID-19, and an increase in the Child Care Benefit by $300 per child.

These and other measures have put Canadians on the path to profits again, with some thinking they might actually have some cash on hand to invest.

What now for bank stocks?

It's still a volatile situation for Canadian bank stocks, however. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), for example, fell 35% since February to its lowest point.

However, this and other bank stocks have since rebounded with the recent news. In fact, analysts believe the massive selloff was overdone, as Canadians feared what was coming.

In fact, Canadian banks have fared the best in the world during times of crisis, such as the last recession back in 2008. Canadian banks have strong cash flow, and diversified sources of revenue, meaning that Canadian bank stocks should bounce back a lot quicker than some other peers.

Take TD, which has become one of the top 10 banks in America, and is still in the expansion phase. It has since also expanded into the wealth and commercial management sectors, a lucrative area for banks.

The bank also has long-term contracts that should keep cash flowing in for investors looking for stability in both stock price — and dividend yield for decades to come.

The bad news

The main issue right now is oil for bank stocks. Canadian bank stocks are all heavily invested in the energy sector, and it's unclear when this area will bounce back. It's going to take a lot more than a vaccine to heal this industry, especially now that Russia and Saudi Arabia have said the countries won't be pulling back production.

The other problematic area: real estate. The Bank of Canada supporting mortgages is great news, but it's not going to convince Canadians that now is the time to buy or sell their home.

Even worse, it's definitely not the time to invest in grand real estate projects hoping the economy heals quickly. This could be seriously troublesome for Canadian bank stocks that are heavily invested in real estate.

Bottom line

If you're looking to make a long-term investment, Canadian bank stocks are always a good buy. Sticking to a stock like TD is a great option, as it's Canada's second-largest bank by market capitalization, so it has plenty of cash on hand to work through this crisis.

It also has a strong history of dividend yield increases, so you can still look forward to cash coming in even when the stock is down.

But if you're looking for a quick rebound for short-term gains, I'd hold off on bank stocks. There could be a lot more volatility ahead, so it's best to lay low and wait until the storm passes if you're looking to invest for only a couple of years.

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