BMO (TSX:BMO) Has Survived Over 200 Years of Market Crashes

Description

Canada's banking sector is under focus again, as the 2020 pandemic creates more panic among investors. One of the well-capitalized banking systems in the world is facing a tougher challenge. But no one can't argue about the ability of **Bank of Montreal** (TSX:BMO)(NYSE:BMO) to survive another market crash.

Survival of the fittest

All five of the big banks in Canada, including BMO, have their economic moats. Also, the banking environment has systematic cost advantages. A low-cost deposit base, excellent operating efficiency, and conservative underwriting are the factors that make the sector robust.

The present health crisis, however, is unlike previous market disruptions. The economic and financial destruction is so severe that it has become a survival of the fittest. Financial stimulus packages run in the billions of dollars, while a six month mortgage payment moratorium is in place.

The most distressing part is the way COVID-19 has changed people's lives. There were financial crunches in past recessions, but they did not require staying at home, travel bans, and border closures, among other things. While the damage is still growing, only the fittest institutions will survive this market crash.

Two-fold impact

Canada's banking system favours a handful of large banks, and they control the majority of the domestic market to this day. Regulators won't allow industry consolidation. In 1998, the merger proposals between **BMO** and **Royal Bank of Canada** as well as **Toronto Dominion** and **CIBC** were rejected.

BMO came into existence in 1817 and will turn 203 years old on June 23, 2020. More than 10 generations of bankers managed the oldest-running bank in Canada. One gauge why this $47.9 billion bank could weather a deep recession is its dividend payment habit.

Aside from being the first company to ever pay dividends, BMO has, against all odds, consistently met dividend payments. The bank is still standing tall and mighty after World War I, the Great Depression, World War II, and the 2008 Global Financial Crisis.

But with the health and economic impacts, the magnitude of the present crisis is doubled. Economists are forecasting the average growth for the Big Five banks to shrink by 23% in the second quarter.

Panic zone

BMO is inside the panic zone, although investors need to calm down. The bank is confronting COVID-19 on a position of relative financial strength. Understandably, rating agencies like Fitch are downgrading the ratings due to the disturbance of the novel coronavirus.

The scenario, for now, is a severe economic contraction in the first half of 2020. The decisive fiscal and monetary response by the federal government should be able to temper the pandemic's impact. But forceful economic recovery is possible beginning in the third quarter of this year.

Ease of pressure

BMO's resiliency in the past is worth noting. After World War I, operations and the number of branches grew. Following the Great Depression, assets exceeded $1 billion for the first time. During World War II, the bank maintained the business while funding the war efforts. Post-war, the bank resumed its growth.

At the height of the 2008 Financial Crisis, dividend payouts continued. The COVID-19 measures only need to ease for BMO to re-surge and overcome the crisis.

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