



Canadian Investors: Why Bank Stocks Will Disappoint This Year

Description

Canadian banks have long been reliable sources of growth and income for investors. However, banks were hit hard in March as markets priced in the negative impacts of the COVID-19 outbreak. The fallout will be widespread, which is why banks are vulnerable in the quarters to come.

Canadian banks are facing a rough economic climate

Economists are projecting one of the worst recessions over the past century. The pullback will be deep. Since there is no timeline for the end of the lockdown, it is nearly impossible to project just how damaging these measures will be in the long run.

The International Monetary Fund (IMF) sees the worst global recession since the 1930s. It has projected that the Canadian economy will shrink 6.2% in 2020. However, it expects the global economy to follow this with a big rebound in 2021.

Earlier this month, I'd discussed why investors may want to buy-the-dip in some high-yield bank stocks. **Bank of Montreal** stock has dropped 27% over the past three months as of early afternoon trading on April 15. Like its peers, BMO's earnings are expected to take a significant dip in the face of the broad shutdown. However, it is hard not to like its value right now. Shares last possessed a price-to-earnings ratio of eight and a price-to-book value of one. The stock offers a quarterly dividend of \$1.06 per share, representing a [strong 5.8% yield](#).

Housing put on hold

Canadian banks will undoubtedly see Capital Markets and Wealth Management segments take a hit in the quarters to come. Investors should keep their eye on bank credit and their housing portfolios. The federal government has pushed for unprecedented financial relief to combat this crisis. One of those methods of relief involves deferring mortgage payments.

Meanwhile, the real estate industry is practically grounded. Open houses have been discontinued, and

there is little appetite to shop aggressively with strict social distancing measures in place. **Canadian Imperial Bank of Commerce** poured resources into bolstering its real estate portfolio in 2020, but this is unlikely to bear fruit, as it battles this crisis throughout the year.

Still a good long-term play

Canadian banks may not be able to avoid the market carnage, but that does not mean investors should ignore them entirely. Earnings will assuredly take a hit in 2020, but in the long term, Canada's banks are worth owning.

Royal Bank and **Toronto-Dominion Bank** are the two largest financial institutions in Canada. Shares of Royal Bank have dropped 15% over the past three months. TD Bank stock has fallen 18% over the same period. Back in late February, I'd discussed how Canadians can see a huge [boost in their portfolios](#) after a market crash. With banks, Canadian investors should prepare to play the long game.

TD Bank and Royal Bank both boast immaculate balance sheets. Royal Bank now offers a dividend yield of 4.9% and TD Bank a 5.3% yield. Banks are set to struggle in the near term, but these long-term discounts will be great for investors as we look ahead to a return to normalcy.

CATEGORY

1. Bank Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/08/18

Date Created

2020/04/15

Author

aocallaghan

default watermark