Bank Stocks: Which Is a Better Buy Today?

Description

This year has been a bumpy ride for investors, to say the least. After seeing a sharp drop in the market starting in February, the market is now only down about 20% this year.

The volatility has left many investors wondering what's next. The economic impacts from the spreading of COVID-19 will likely lead us to our first recession in over a decade.

Whether we're headed for a recession or not, investors should not be worried about trying to time the market bottom. It's possible we hit the bottom three weeks ago, and we're on our way to another +10-year bull market. But it's also very possible that the worst has yet to come.

Rather than trying to time the market, investors should be updating their watch lists now that so many great companies are on sale today. The recent pullback has driven down the stock prices of many industry leaders. The banking industry is no different.

Each of the top six Canadian banks has seen a pullback in 2020 so far. Bank stocks were fairly priced before the market crash, and now they are even more attractive.

In an industry that has relatively high barriers to entry, the majority of bank stocks have performed very well since the Great Recession just over a decade ago.

We'll review two top Canadian bank stocks and determine which is a better buy today.

Bank of Nova Scotia

At a market cap of $67 billion, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is the third-largest bank in Canada.

Scotiabank took a slightly different route in its geographic expansion strategy than the other Canadian banks. Most of the other big banks have been focusing their geographic growth in the U.S., while Scotiabank has built an international presence.

Latin America and Asia are two areas that Scotiabank decided to expand into. The presence in Latin America has done very well to date. The Canadian bank ranks in the top 10 in some of the largest Latin American countries.

In 2019, Scotiabank reported that roughly 30% of net income had been driven from international operations.

At the time of this writing, Scotiabank has the second-highest dividend yield of the top six Canadian banks. At an impressive yield today of 6.25%, the dividend pays shareholders $3.60 per share.

Not only does the bank pay a high yield, but it’s a reliable one as well.

Scotiabank began paying a dividend more than 185 years ago. During the Great Recession, when financial companies we’re impacted dramatically, Scotiabank held strong and kept paying dividends to shareholders.

Canadian Imperial Bank of Commerce

The fifth-largest bank in the country, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), has a market cap of $37 billion.

CIBC took a different approach with regards to geographic expansion than Scotiabank did. The bank has invested primarily in Canada, rather than expanding internationally.

While it’s not necessarily a negative to focus primarily in Canada, that strategy does add a relatively large risk ahead of a potential recession.

CIBC has a significant amount of its revenue driven by the Canadian residential housing market. As a result, the bank was hit extremely hard during the financial crisis just over a decade ago. With unemployment rising now from the spreading of COVID-19, many investors are skeptical of how well CIBC will handle the next recession.

The dividend track record might not be as strong as that of Scotiabank, but 150 years is still very respectable.

CIBC also pays the highest dividend yield today between the top six Canadian banks, which is equal to 6.75% at today’s stock price. The dividend pays shareholders $5.84 per share.

Foolish bottom line

Both of these Canadian banks would be a great addition to any long-term investor's portfolio. But witha recession likely nearing, it's important to look out how each bank may react.

The geographic growth opportunity from Scotiabank is what makes this a better bank stock to buy today. CIBC did not hold up well during the last recession, and it's very possible that this time around, it won't be any different.

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