Are Canadian Banks in Trouble Amid the Coronavirus Pandemic?

Description

The Canadian banks are between a rock and a hard place following the coronavirus (COVID-19) crisis.

The recent one-two punch delivered by COVID-19 hit the banks far harder than most other businesses out there. The economic disruption caused by the coronavirus is taking a toll on loan growth. And, the unprecedented collapse in oil prices hits the Canadian banks close to home.

Bank of Montreal, with its above-average exposure to the oil and gas (O&G) industry, led the downward charge. It is facing pressure at a time when it was already feeling the heat.

Canadian banks have had to deal with the challenging credit downturn for well over a year. The coronavirus essentially acted as salt in the wounds of the banks. With headwinds continuing to mount, some pundits fear that pressures could cause the Canadian bank stocks to suffer further downside.

With even more things to worry about, it's definitely tough for many investors to justify owning a Canadian bank, no matter how cheap they get.

Could the Canadian banks fail as pressures mount?

During the financial crisis of 2008, some U.S. banks went under because of profound losses. They hung onto huge stakes in subprime mortgage-backed securities following the securitization process. With another wave of losses expected, could any Canadian banks be headed for failure?

No, not a chance.

You see, unlike in the financial crisis, massive bank losses aren't going to hit from out of anywhere as a result of foul play. Sure, loans could sour at a quicker rate and that could tank the Canadian bank stocks further. Still, there's simply no sense in comparing the magnitude of impaired loans amid the coronavirus crisis and the events that led to the demise of some U.S. banks during the 2008 financial disaster.

Moreover, the Canadian banks, even the most exposed to the most vulnerable sectors of the market, are ridiculously well-capitalized. They've been stress-tested, and they're going to survive the 2020 crash as they did every crisis through the decades. This crisis may be different, but it's not going to spell the demise of any one of the Big Six Canadian banks, even the ones that are most exposed to at-risk small- and medium-sized businesses.

Bank of Montreal may be viewed as the most vulnerable amid the coronavirus crisis, yet I'd pin the odds of it failing at zero, even amid these uncertain times.

Why? The Canadian banks are in CET1 (common equity tier 1) territory, and that's not to be taken lightly. They're in far better shape than prior to the great recession. It doesn't even make sense to compare the state of banks today and prior to 2008.

Foolish takeaway

Could the Canadian banks fail given the mounting pressures?

Not a chance. While fewer loans at lower margins (thanks to rock-bottom interest rates) and rising provisions could cause bank stocks to fall further, I am bullish on the long-term outlook. I think that those with a time horizon beyond 10 years should strongly consider initiating a position at these crisis-level valuations.

The Canadian banks are remarkably robust, and the dividends will reward those with the patience to wait for the tides to turn. Investors should think of buying Bank of Montreal and its on the way down.

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