Is Warren Buffett Getting Ready to Bail on Bank Stocks?

Description

Earlier this month, Warren Buffett made waves by liquidating his entire position in airline stocks. After trimming his holdings in U.S. airlines, he went on to sell the remaining shares, citing long-term headwinds. At his shareholder meeting, Buffett said he wasn't sure whether air travel would be back to 2019 levels in "two or three" years. Faced with such uncertainty, he ditched airlines entirely.

Now, some are beginning to wonder if he'll do the same with banks. A recent SEC filing showed that Buffett had reduced his position in two major American banks: **US Bancorp** and the **Bank of New York Mellon**.

As interest rate sensitive banks, these companies could lose big time from the rate cutting we've been seeing lately. Buffett's actions have led some to speculate as to whether he will exit his bank positions entirely. Before selling all of his airline stocks, Buffett trimmed his positions. His bank plays look similar to the moves he made before dumping airlines, raising the question of whether he'll follow the same path.

The short answer is, "probably not,"but the possibility is worth exploring in more detail. We can start by looking at the reasons Buffett trimmed his positions in the first place.

Why Warren Buffett trimmed his position in banks

So far, Buffett hasn't given detailed reasons for why he trimmed his positions in US Bancorp and Bank of New York Mellon. However, it's possible to make educated guesses.

We can start with the most obvious: to avoid regulatory burdens.

Buffett's bank sales brought his positions below 10%. In light of this, it's possible that he was simply looking to avoid the regulatory hurdles that come with owning 10% of a publicly traded company.Under SEC rules, you face more onerous reporting requirements when you own over 10% of acompany. There are even more rules to follow if that company is a bank. For example, you needFederal Reserve approval to own more than 10% of a major U.S. financial institution.

Another possible reason Buffett trimmed banks is because of interest rate sensitivity. Interest rates are currently extremely low, both in the U.S. and Canada, and that can hurt certain banks. In a recent article, Fool.com contributor Sean Williams noted that the Bank of New York Mellon was particularly sensitive to low interest rates. It's possible, then, that Buffett trimmed the positions to minimize exposure to unfavourable macro trends.

What he said to say

Buffett hasn't commented on his *specific* reasons for selling the bank stocks he sold. However, he has gone on the record as saying that he still likes banks *in general*. At his recent shareholders meeting, he said, "the banking system is not the problem in this particular [situation]."This would tend to indicate that Buffett isn't bearish on banks *as a whole.*

Foolish takeaway

For Canadian investors, there are many lessons to take from Warren Buffett's words and actions on banks.

Canada, like the U.S., is pursuing a low interest rate policy to help contain the fallout from COVID-19. So, a bank like **Royal Bank of Canada** will probably see its margins squeezed. Bank interest rates follow central bank decisions, and lower rates mean lower net interest margins.

That's not necessarily a reason to sell RY stock. As Fool contributor Sean Williams pointed out, the Bank of New York Mellon is especially interest rate sensitive. Long before COVID-19 was even a concern, the bank was being hit hard by low interest rates. That doesn't appear to have been the case with Royal Bank, which grew its earnings in 2019.

Ultimately, we'll have to wait and see how the COVID-19 crisis plays out for Canadian banks. Buffett doesn't own any Canadian banks, so his bank plays aren't the best tells for the Big Six. One thing is clear, though: investors should be prepared for bad news when the big banks release earnings this month. There are enough headwinds in the economy to make it inevitable.

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