Canada’s Big Banks: Stocks Earnings Preview

Description

We are finally in bank earnings season. When Canada’s big bank stocks report earnings this quarter, the Canadian investing landscape will come to a standstill. Much like the 2008 Financial Crisis, investors will be watching closely and dissecting every word.

This week, all five of Canada’s big bank stocks report earnings. Here is the schedule:

Tuesday, May 26

- **Bank of Nova Scotia**

Wednesday, May 27

- **Bank of Montreal**
- **Royal Bank of Canada**

Thursday, May 28

- **Canadian Imperial Bank of Commerce**
- **Toronto-Dominion Bank**

Economic bellwethers

Why are Canada’s big bank quarterly results so important? For one, they are largely considered economic bellwethers. That is, strong earnings are typically a sign of a strong economy. The flip side is also true — poor earnings and a dire outlook could mean a recession.

The financial sector accounts for approximately 33% of the S&P/TSX Composite Index. Likewise, Canada's big banks account for a good portion of the sector. In other words, they have significant influence over the Index. If Canada's bank stocks crash, there is a strong likelihood it is taking a good portion of the S&P/TSX Index along with it.

Are dividends at risk?

Canada's big banks form the cornerstone of individual retirement portfolios across the country. They are also the bedrock of large pension funds, all of which rely on the companies for reliable income.

Without question, they are largely considered the safest dividend stocks on the planet. They escaped the Financial Crisis without cutting dividends, and they have paid out uninterrupted dividends for more than a 100 years. Quite simply, they deserve to be recognized for their impressive dividend history.

Unfortunately, companies are cutting the dividend at a record pace. Thus far, there have been over 70 TSX-listed companies that have either cut or suspended dividends. In Europe, governments are mandating dividend cuts.

Although it is unlikely Canada's Feds will follow suit, they have asked banks not to raise dividends. This will impact Bank of Montreal shareholders, as it would typically announce the bi-annual raise this quarter. Much like they did in the Financial Crisis, Canada's big banks are likely to escape this pandemic with dividends intact.

However, dividend-growth investors need to keep their expectations in check. Give the situation, it is likely that dividend raises will be on pause for foreseeable future. The impact of COVID-19 measures on the economy won't be known for some time. What we do know is that provision for credit losses will skyrocket this quarter.

This will eat into earnings and inflate payout ratios.

Canada's big banks are a buy

Are Canada's big banks a buy today? The banks are trading at levels not seen since the Financial Crisis. Just as they rebounded then, so too will they rebound in the future.

If you are looking for a quick buck, then I'd recommend staying away. The financial industry has a ways to go before it is on solid economic footing. However, Canada's big banks are some of the best capitalized banks in the world. This will enable them to weather the storm and come out strong on the other side.

I am not a fan of timing the market. In my opinion, Canada's big banks can be bought at any time. However, they look particularly attractive today. Worried about earnings? Perhaps buying a partial position before earnings and topping up afterwards is the best course of action.

Regardless, many years from now, investors will be looking back at today's prices as a once-in-a-decade opportunity. Don't miss out.

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