



## Why Bank of Nova Scotia (TSX:BNS) Stock Is Soaring 11%

### Description

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) kicked off second-quarter earnings report season for the Canadian banks yesterday. It was a report that was both brutal and encouraging — brutal for its steep decline and encouraging for the extent of the strength and resiliency of this Canadian bank. The stock has rallied 11.5% since the earnings report yesterday.

Here are the main reasons behind this recent positive momentum in Bank of Nova Scotia's stock price.

### Bank of Nova Scotia stock rallies as the bank beats expectations

As we know, in the stock market, it is all about expectations. Stocks price in certain expectations and rally/fall when these expectations are beat/missed. Consensus expectations were calling for EPS of \$0.91 in the second quarter. Bank of Nova Scotia earnings came in much higher. EPS was \$1.04. Although this is 40% lower than last year, it is almost 15% higher than expectations.

This is a big deal at [a time when the market is nervous and the economy is in shambles](#). As Bank of Nova Scotia management put it, there has been “structural damage from a credit perspective.” The outlook is highly uncertain, but the “banking sector will be picking up broken eggshells” for a while. This does not sound good at all, but the bank has underlying strength and resiliency.

### Bank of Nova Scotia boasts strong capital ratio and reserves

In this environment, we have all fully expected the bank's capital would deteriorate. It did, in fact, dropping 50 basis points to 10.9% from 11.4% last quarter. This is well above regulatory minimums, and the bank does not see this dropping below 10% in the foreseeable future. Of course, we cannot deny that there is no guarantee and the risks remain.

Provisions for credit losses increased 139% versus last quarter to \$1.846 million. And it will get worse

in the upcoming third quarter. Provisioning for credit losses is twice the normal rate company wide.

## Bank of Nova Scotia stock to face a difficult year, but there are good signs too

Yielding over 6% today, Bank of Nova Scotia stock looks attractive. It has strong reserves and good liquidity coverage, which translate to resiliency.

How the new normal will look is highly uncertain. The upcoming third quarter is even more uncertain. Things can and probably will get worse before they get better. The unemployment rate, insolvencies, and a lack of economic growth will continue to pressure the bank.

But on the bright side, management noted a few things on the earnings call that were hopeful. Consumer spending is improving markedly from the lows in March/April. Loan payment deferral requests peaked at the end of April. And business lending is quickly returning to pre-pandemic levels.

And [technology will continue to play a key role in maintaining the Bank of Nova Scotia's operations](#). This is a driving force that will continue to ensure business continuity today and into the uncertain future.

## Foolish bottom line

Bank of Nova Scotia stock is rallying after a better-than-expected second-quarter earnings result. This got the stock rallying, as investors' fears were at least somewhat alleviated. The rest of 2020 will certainly be challenging, with unprecedented uncertainty. But at least this Canadian bank will continue to stand the test of time.

### CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

### PARTNER-FEEDS

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