Buying TSX Bank Stocks? Wait for This 1 Thing

Description

Market stressors are like economic tectonic plates, capable of causing sudden earthquakes. And the fact that they are out of sight is part of what makes them so dangerous. But massive societal changes are not difficult to spot. The key is to ask, “What am I not seeing right now because it’s so big?” One such market stressor is the upcoming U.S. election. And there are plenty of reasons why TSX bank stocks might be affected come November.

Get ready for a stock market earthquake

Talk about a time to start taking things off the table. In fact, during the coming disruption, it might even be better to take things off the table and then hide under it. Overvalued tech stocks and high-risk assets ridden too far by bulls are just two areas to start trimming the fat. But other asset types should come in for excision right now. These include financials, including insurance and banks.

Now, both of these asset types have already seen a mean 2020. Look at **Manulife Financial**, which is down 30% in the last 12 months. Or consider **Scotiabank**, which itself has lost in the region of 25% in the same period. But the pain could be about to get a lot worse for banks. A combination of dried-up fiscal stimuli, kids returning to school, and an ongoing pandemic could add up to a barrage of bad debt.

The electoral elephant in the room

A Democrat win in November is likely to be unpopular with the stock markets. There are political and economic reasons why this is likely to be the case. But the main reason, and one that has been borne out by history time and again, is that the stock market abhors change — especially sudden change. And few social changes in North America are as profound as a change in U.S. leadership.

A shock to the stock markets is not exactly the kind of medicine that investors need right now. A North American recession is already well under way, perhaps even germinating the seed of a deeper economic depression. Since banks are strongly correlated with the economy, shareholders in the Canadian Big Five could see some further depreciation this year. Would-be investors may want to wait for deeper value.

Other stressors are amassing, too. The potential for a reheated U.S.-China trade war is growing. The possibility of ratcheted protectionism also awaits a market dominated by a second Trump term. Post-election, the stock markets in North America will almost certainly be extra frothy, no matter the outcome. This is why investors looking to make bulk purchases for the long term may want to hold their horses.

Few bank stocks look appealing at the moment, with loan defaults looming and a potential credit bubble building. Going back to Scotiabank, though, investors seeking growth potential from emerging markets have a fairly strong play here. This name offers exposure to growth in the Pacific Alliance. It also packs a 6.5% dividend yield plus exposure to a potentially rejuvenated post-pandemic housing market.

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