



Warren Buffett Is Betting on Banks: Should You Buy RBC (TSX:RY)?

Description

2020 has not been a good year for anybody. Investors have seen losses they could not have anticipated, and even the Oracle of Omaha has suffered substantial losses amid the pandemic-fueled market correction.

Warren Buffett sold his entire position in airline stocks with the onset of the market crash during the pandemic. For the first time in decades as an investor, Buffett became a net seller. He bought more **Delta Airlines** shares before the pandemic before deciding to let go of all the airline companies he bought.

Additionally, Buffett's **Berkshire Hathaway** also saw an extensive \$50 billion net loss in its first quarter of fiscal 2020. The king of the investing world has since laid low, and the only major purchase has been his [investment in Dominion Energy's infrastructure for \\$10 billion](#). Buffett has been uncharacteristically quiet since the acquisition, but he has since made another move.

Bullish on banks

On July 23, 2020, we got a hint of what Buffett might be up to. The investor purchased an additional \$800 million worth of **Bank of America** ([NYSE:BAC](#)) stock. The recent move changed his position to owning 11.3% of the bank. The fact that Buffett doubled down on the stock, despite the issues that come with owning a significant position in a bank, is an indicator that he is confident in the company.

Why does he have such a bullish stance on the bank?

Buffett said that banks would not be the primary casualty of the recession due to the global health crisis. He believes that the robust capitalization of major financial institutions will help banks ride the wave. If we consider the recent revenues generated by big banks, he might not be off.

While most banks are posting a significant decline in net income, it is primarily due to an increase in provisions for credit losses (PCLs). Banks put aside PCLs in anticipation of losses occurring from loan defaulters. If the losses do not materialize, banks can reverse the PCLs.

Bank of America posted almost a 50% decline in pre-tax income in Q1 2020. However, that was mainly due to a substantial increase in PCLs. If you consider the revenue without considering its PCLs, the bank actually saw a 6% increase in deposits with an 8% jump in revenue from the previous quarter. The [Warren Buffett stock](#) is healthier than it might look.

A Canadian bank to consider

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is a Canadian banking giant that can drive its loans and deposits and its cost-control measures to pave a way through the low interest rate environment without problems. It can comfortably continue to cushion its pre-provision and pre-tax earnings.

An increase in economic activity due to the gradual reopening means it is likelier to see more credit offtake and deposits. An improved efficiency ratio can also bolster the bank's earnings. RBC's loans grew by 10% in the last quarter, and deposits saw a substantial 17% increase. The bank is also well capitalized.

Foolish takeaway

If you want to consider following Warren Buffett's bullish bank stance, you can consider investing in Royal Bank of Canada. The current weakness in the market and the low interest rate environment can slow down the near-term growth for the bank. Still, it has a robust position in the sector to drive more value for investors in the long run.

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Author

adamothonman

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