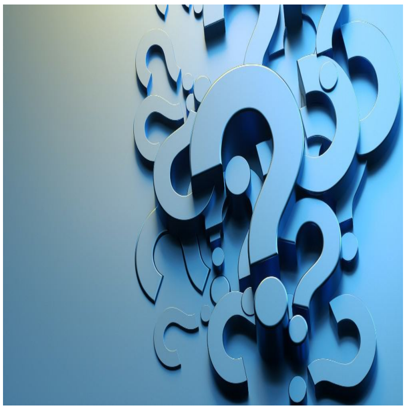

RBC (TSX:RY) Stock: How Has it Done During COVID-19?

Description

Any event that causes the stock markets to stir is a significant problem for the economy. As the 2008 crash showed us, even the healthiest of companies are at risk of going under if a major event unfolds in the world. The global health crisis caused by the novel coronavirus outbreak has been nothing short of an economic earthquake.

The impact of COVID-19 on the economy

It is no secret that COVID-19 is affecting all sectors of the economy, and the banks are not immune to its effects. Due to the mandatory lockdown measures, many businesses were forced to shut their doors, and millions of people lost their jobs. As part of the COVID-19 response, the government announced its launch of the Canada Emergency Relief Benefit (CERB) program.

According to the program, Canadians who lost their jobs will receive weekly $500 payments for up to 16 weeks. With no visible end to the pandemic and a slow resurgence of available jobs, the government has extended the program to a total of 24 weeks to help vulnerable Canadians. The banking sector came on board to help Canadians by deferring their loans for six months.

A combination of loan deferrals and CERB money has been keeping Canadians afloat during the crisis. However, the deferrals can only last so long, and banks will need to get their payments to generate income.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is among the banks that rely heavily on mortgage payments from loanees. The bank approved deferrals for residential mortgages amounting to more than $47 billion — an astounding 20% of the bank's entire mortgage balance.

RBC offered the deferrals, because the financial institution has a wide moat that allows it to maintain its operations amid the deferral period. That being said, the bank's substantial credit reserves cannot last forever. Most of the big banks in Canada have the kind of capital necessary to ride periods of financial instability. However, an extensive recession might spell horrific news for banks like RBC.

RBC's economists have observed the real estate market figures in Canada. There has been a surge in sales, but the situation might not be as positive as investors might assume. The supply in the housing market could likely outpace demand, and we could face a major market correction soon.

Current situation

Royal Bank of Canada's share price has managed to recover by almost 30% from its March 2020 bottom, but it is still trading for a 14% discount from its February 2020 peak. Trading for $93.08 per share, RBC is paying its shareholders at a juicy 4.64% dividend yield. Currently, the bank seems to be performing well enough to keep it afloat.

A negative development in the COVID-19 situation or a housing crash could create issues for the bank.

Foolish takeaway

RBC has a reputation for being a reliable income provider for Canadian investors. The bank is as old as time, yet it has kept itself abreast of technological advances. The bank is also working on developing a new artificial intelligence platform to enhance customer banking experience. The platform could be the first of its kind in the country.

Additionally, RBC has a dividend-growth streak of almost 10 years. The bank enjoys strong investor trust. I think it could be a safe bank to buy and hold for the long run. However, I think it could face serious short-term issues.

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