Why I'm Loading Up on Bank Stocks in August

Description

Canadian bank stocks have passed through a whirlwind 2020 so far. In the middle of April, I'd warned investors that bank stocks were likely to disappoint for the rest of the year. Indeed, the shares of Canada's top financial institutions have failed to recoup their losses prior to the stock market crash in the late winter and early spring.

The domestic and global economy is still battling a pandemic, ballooning individual and national debt, and high unemployment. However, things have started to look up in June and July. The world is hanging onto hope for a vaccine in the months ahead. Today, I want to discuss why I'm back on the bank stock train.

Why things are looking up for Canadian bank stocks in August

Although they have not fought all the way back from losses earlier this year, bank stocks have still been solid since April. The **BMO Equal Weight Banks ETF** (TSX:ZEB), which tracks Canada's Big Six Canadian banks, has seen its stock increase 14% over the past three months as of close on August 7. Shares are still down 13% so far this year.

The broader economy has shown signs of improvement. However, one sector has been a standout — Canada housing. Sales in Canada's major metropolitan areas have soared in June and July. This is great news for bank stocks. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) came into 2020 with a mission to bolster its mortgage portfolio. Previously, the bank was one of the leaders of the Big Six. However, its advantage has waned in recent years.

CIBC and its peers will benefit from increased activity in one of Canada's most important economic sectors.

What to expect ahead of third-quarter earnings

Canada's top banks unveiled their second-quarter 2020 earnings in the late spring. As expected, it was a grim scene. Revenues and earnings were hit hard by the effects of the pandemic. Banks were forced to dramatically increase their provisions for credit losses in response to the increased risk. Still, bank stocks gained momentum after earnings season.

It stands to reason that an improved picture in the third quarter should provide a boost to bank stocks. Capital markets have continued to build momentum, while increased activity across the board in this healing economy should propel earnings in Q3 2020.

Three bank stocks I'd buy today

Shares of CIBC have dropped 9.6% in 2020 as of close on August 7. The stock has climbed 17% over the past three months. CIBC's revamped mortgage division should benefit from historically low borrowing rates and demand that has remained very high, even in these uncertain times.

CIBC boasts a flawless balance sheet, and it has a great track record as a dividend payer. Its stock last possessed a favourable price-to-earnings (P/E) ratio of 10 and a price-to-book (P/B) value of 1.1. The bank offers a quarterly dividend of $1.46 per share. This represents a tasty 6.1% yield.

Royal Bank stock has increased 14% in a three-month span at the time of this writing. Its stock has a P/E ratio of 12 and a P/B value of 1.7. This puts it in solid value territory relative to industry peers. Royal Bank last maintained its quarterly dividend of $1.08 per share, which represents a 4.5% yield.

Scotiabank is another bank stock I'm bullish on as we move into the middle of August. Shares of Scotiabank have dropped 10% in 2020. The stock last had an attractive P/E ratio of 9.3 and a P/B value of one. It also boasts a quarterly dividend of $0.90 per share, which represents a strong 6.3% yield.

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