Better Buy: RBC (TSX:RY) or Scotiabank (TSX:BNS) Stock?

Description

Many investors and analysts were expecting a significant stock market crash as 2020 closed in. In fact, we were expecting a correction for the better part of 2019, but it never seemed to materialize. With 2020 came COVID-19, and we did see the crash, even if it was under unprecedented circumstances.

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When a significant market crash occurs, investments in various sectors of the economy take a hit. Banks are always hard-hit when a recession comes. Still, if you have a long-term horizon for your investments, a recession should not scare you too much. If you are planning to retire soon, the bank stocks you hold in your portfolio can make a significant difference.

With this in mind, there's never a wrong time to invest in banks. There still are things to consider. Some banks can perform better than others. In case a crash happens, one bank can bounce back faster than others. There are six major banks in Canada that are safe long-term investments.

Two banks that I will discuss today are the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). We will see how the two banks have fared so far and which one makes the better buy.

Royal Bank

RBC is one of the oldest and most substantial financial institutions in the country. The stock has enjoyed a stellar performance over the centuries. According to its market cap, the $139.38 billion market capitalization stock is the largest bank in the country. It offers a wide range of financial services and products to its clients.

RBC took a major hit with the onset of COVID-19 and the subsequent lockdown. As loan-loss provisions surged, the bank's income through loan interest decreased, impacting RBC's bottom line. Despite the setback, its immense liquidity provided the cushion it needed to weather the storm.

The bank has a strategically diversified operation, which helps it retain its resilience in harsh financial environments. The Royal Bank has faced several crises through the ages, but it has never failed to pay its investors their dividends since 1870. That proves that RBC is an excellent bank.

Scotiabank

Scotiabank is based in Nova Scotia, but it is often referred to as The International Bank because of its massive global operations. The stock has also faced the same challenges that the rest of the finance sector has amid the pandemic. However, it did set aside billions of dollars for loan-loss provisions because it anticipated the challenging environment.

BNS derives a third of its profits from international operations in Latin America. The bulk of its assets operate in Peru, Mexico, Chile, and Colombia. The geographic diversification might not be useful immediately because the pandemic has spread worldwide, but that could be a useful factor for the bank in case of a housing market crash.

Defying all expectations, the housing market keeps rising. A low-interest-rate environment is encouraging more Canadians to take out mortgages. New buyers keep flooding the markets without reasonable financial strength. If a housing crash happens, the end of loan deferrals and loss of income from CERB can lead to a jump in loan defaults.

This move can take a massive toll on all banking sector operators. Most Canadian banks rely heavily on profits from mortgage loans, but a drop in prices could present near-term risks for the banking sector. BNS's diversity might help it fare better than most other banks.

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Foolish takeaway

The final verdict I have between BNS and RBC is a challenging one. If I want to consider the short-term future, BNS presents me with a better value. The bank has sufficient diversity to weather a housing market decline and avoid significant short-term pains. Meanwhile, RBC has everything going for it when it comes to its long-term value for investors.

While the end of a recession can help both banks bounce back quickly, a recession might not take as big a toll on BNS as it might on RBC.

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Date
2025/07/07
Date Created
2020/08/25
Author
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