Are Canadian Bank Stocks Safe to Buy in October?

Description

TSX stocks are still generally buoyant as the market rebounds from September's precipitous selloff in equities. But that could be about to change drastically. With the pandemic set to continue, risk in Canadian markets doesn't look set to evaporate any time soon.

It's been a rough week so far in terms of the public health crisis. Ontario had the sad privilege of making a list in the *New York Times* this week composed of just three international regions experiencing notable coronavirus resurgences.

Having tallied 700 new cases Monday, Ontario stood alongside Kenya and the Netherlands in the *NYT* pandemic update. Meanwhile, across the pond, *The Guardian* reported that "the province (had) officially entered its second wave of COVID-19." Never mind Trumpian fallacies such as the "we're testing more" explanation behind ratcheting cases: the second act of the pandemic is happening.

A divisive stock type to watch this fall

Further lockdowns and other social-distancing measures loom. The knock-on effect to the economy will be palpable. And anything cyclically aligned with the economy is going to get walloped. Yes, we're talking about the banks.

Ontario's dubious distinction hadn't started filtering through the markets by midweek. The **S&P/TSX Composite Index** was still positive across a five-day average. With a post-selloff bounce of 2.76%, most sectors were spattered with green ink Wednesday.

This was despite the dire pronouncements coming from Doug Ford's office. The Ontario premier referred to the developments this week, saying, "We know that this wave will be much more complicated, more complex, it will be worse than the first wave we faced earlier this year."

It's not unreasonable, therefore, for investors to see the TSX Composite Index turn red fairly promptly. The take-home? Get ready to buy cheap shares.

Buying bank stocks for long-term growth

Bank investors have been able to take their pick from the Big Five, all of which have been seriously chewed up by the pandemic. However, **Scotiabank** (TSX:BNS)(NYSE:BNS), down 26% year on year, and **BMO** (TSX:BMO)(NYSE:BMO), which has lost 22%, look like the strongest plays for a mix of both deep value and growth potential over the longer term. But deeper discounts could be on the way this fall/winter.

Investors should keep cash on hand and get ready to build positions in Big Five banks as they become successively cheaper. Those interested in passive income have a 6.5% in Scotiabank to mull over, along with strong international diversification. BMO is another key name, with a lower 5.4% yield but key access to capital markets and wealth management.

Buying shares in Scotiabank and BMO as the markets get progressively worse allows shareholders to build on weakness. This method also lowers capital risk, while locking in richer yields over the long term.

Be wary when chasing those plump yields, though. Canada's top banks avoided cutting their dividends during the first wave of the pandemic. However, as Ford has signaled, the second wave could be a beast of a much more complex character. Investors should therefore match value with quality and focus on playing a long game for an eventual economic recovery.

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vhetherington