Bank Stocks Could Recover Fast: Where to Bet $1,000 Right Now

Description

As the lockdown measures are eased and economic activities gaining pace, the risk of default is now lower for banks, implying that investors could consider buying top Canadian lenders to benefit from the recovery in their stock prices. Also, the strong government support measures in North America have helped reduce the financial stress on businesses and households, which is positive.

While an uncertain economic outlook poses a challenge, top Canadian banks remain well-capitalized to navigate the current crisis easily. Besides, most of these banks continue to witness improved volumes in loans and deposits, which is encouraging. Further, the provisions for credit losses of these banks are likely to show a steep deceleration on a sequential basis, which is likely to ease pressure on the bottom line and spur growth.

Let's focus on three top bets in the banking sector looking attractive at the current levels.

Bank of Montreal

Bank of Montreal's (TSX:BMO)(NYSE:BMO) performance remains good despite the challenges from the COVID-19 pandemic. Its revenues increased in the capital markets, wealth management, and the U.S. personal and commercial banking space. Further, its strong expense management led to a 2% decline in adjusted expenses during the most recent quarter.

While the provision for credit losses remained elevated, it decreased sequentially. Moreover, I anticipate it to go down further in the coming quarters and support its adjusted earnings.

Shares of Bank of Montreal are down about 16.6% year-to-date and offer a solid dividend yield of 5.3%. With the momentum across its several businesses, strong expense management, and sustained capital strength, Bank of Montreal stock looks attractive at the current levels.

Toronto-Dominion Bank

While margin compression amid lower interest rate environment, reduced customer activity, and higher provisions weighed on

Toronto-Dominion Bank (TSX:TD)(NYSE:TD), improved loans and deposit volumes in Canada and the U.S. retail business is an encouraging sign.

Though the current economic outlook remains bleak, Toronto-Dominion Banks' strong portfolio and geographic mix, and proven ability to drive earnings suggest that the bank is likely to recover fast as the economic activities are picking up pace.

Its efficiency ratio showed sequential improvement in both its Canadian and the U.S. retail business. Further, its provisions for credit losses declined across all business segments on a sequential basis. Moreover, it is likely to go down further.

Like Bank of Montreal, Toronto-Dominion Bank is also paying a high dividend yield of 5.4%, which is sustainable in the coming years and likely to boost its investors' overall returns.

Bank of Nova Scotia

With a stellar dividend yield of over 6.5% and a sustainable payout ratio, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is a buy at the current levels. Its high-quality earnings base, continued growth in the core markets, and strength in the wealth and personal and commercial banking segments position it well to benefit from the economic recovery.

Bank of Nova Scotia's exposure to the high-growth markets, improved loans and deposit volumes, and stable earnings from the wealth management and the personal and commercial business units are likely to support the recovery in its stock. Further, an expected reduction in provisions should support its earnings in the coming quarters.

Shares of Bank of Nova Scotia are down over 20% year-to-date and offer good value to the long-term investors.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:TD (The Toronto-Dominion Bank)

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