Canadian Banks Could Melt-Up Before the Pandemic Ends

Description

The **Pfizer** vaccine was a big deal. It sent the stock market surging on Monday, sparking a profound rotation out of growth and into COVID-hit value. Although the two-week 9% pop in the **S&P 500** was remarkable, I don't think the rally is about to end anytime soon. I think we could be on the cusp of a major breakout that could propel the TSX Index to pre-pandemic highs by year-end, led by the Big Six Canadian banks that have taken too hard a beating amid this unprecedented crisis.

A COVID-19 vaccine won't stop curb this second wave

There are still big question marks relating to the Pfizer vaccine, as it's not fully through with its trials.

Although it's reportedly 90% effective, there's still no telling just how "safe" the vaccine is yet. Some Pfizer trial volunteers reportedly felt side effects that felt like a "severe hangover" after taking their shots. While such a hangover feeling is a relatively minor side effect, many investors seem to be waiting for additional developments from the trial (and the trials of other vaccine candidates) before they back up the truck on the COVID-hit stocks (such as the Canadian banks), many of which are still a country mile away from their pre-pandemic highs.

Moreover, it could take many months before the Pfizer vaccine is readily available for broad distribution. In the meantime, North America faces a drastically worsening second wave. Various localities are at risk of closing down once again, as they lose control of the rapidly spreading coronavirus.

That said, I believe now is the time to put any excess cash to work while there's still some fear in the air, rather than waiting for more good vaccine news. Why? The stock market is forward-looking, and if you're waiting for the vaccine to be ready to go or for the pandemic to be over before buying, you're going to leave a majority, if not all, of the potential profits on the table.

I think the Pfizer vaccine is a green light to start scooping up battered Canadian banks before they have a chance to melt-up to their pre-pandemic levels. We're not out of the woods yet, but the latest vaccine data gives us plenty of hope. And it's hope that I think can give a lift to the battered banks, as investors look past the current nightmare to next year.

An effective vaccine and no Blue Wave bodes well for Big Blue

At this juncture, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) looks to be the best bank for your buck while shares are still trading at around one times its book value. I previously noted the possibility that peak provisions for credit losses (PCLs) being in the rear-view mirror and encouraged investors to buy the stock before analysts had a chance to raise their price targets.

“The Big Six name didn’t have the best mix of loans going into the crisis, with more than its fair share of oil and gas (O&G) loans. With more clarity on a COVID vaccine and much-needed relief in the oil patch that was seen on Monday, I have a feeling that the worst is now behind the Canadian bank we know as Big Blue.” I wrote in a prior piece.

Although BMO faces another rough quarter or two before a potential bottom-line recovery, I would look to get in the stock now before the 4.85%-yielding dividend has a chance to compress further.

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