Warren Buffett Lowers Stake in JPMorgan and Other Banking Companies

Description

According to **Berkshire Hathaway's** 13F filings for the third quarter, the investment giant sold 95% of its stake in banking giant **JPMorgan** (NYSE:JPM). The company also trimmed its position in other banking companies such as **Wells Fargo**, **PNC Financial Services**, and **M&T Bank**. In Q2, Warren Buffett sold its entire stake in **Goldman Sachs**.

So, does this mean the Oracle of Omaha is bearish on the banking sector? The only exception to this rule was Berkshire Hathaway's increased position in **Bank of America**, which is now the second-largest holding of the firm.

The banking sector has underperformed broader markets in 2020 amid the COVID-19 pandemic. As interest rates have been pushed lower, the profit margin for banks will fall significantly as well. Further, high unemployment rates and a recessionary environment also increases the risk of mortgage and corporate defaults.

JPMorgan reported Q3 net income of $9.4 billion

In the third quarter of 2020, JPMorgan managed to increase its net income to $9.4 billion from $4.7 billion in Q2. In fact, the company's net income in the September quarter was even higher than its bottom line in Q4 of 2019, when the economy was in a much better state.

JPMorgan has been helped by quantitative easing measures by the federal government that has intervened to stabilize the U.S. economy. However, the bank also has $34 billion to cover for any future losses. Further, the company is unable to buy back stock or increase its dividends in 2020, which will help its liquidity position in the near term.

Alternatively, Warren Buffett may be worried that there might be another round of stimulus payouts, which will result in a harsher economic environment. On the flip side, JPMorgan will release billions of dollars of reserves into its earnings in case the vaccine is manufactured and distributed at a record pace next year. This will also help the company increase earnings by a huge margin in the second half of 2021.

Are Canadian banks such as TD a good bet right now?

Canadian banks including **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are also trailing the TSX this year due to the above-mentioned issues. However, the recent weakness allows investors to buy a blue-chip stock at a lower valuation and an attractive dividend yield.

TD stock has a forward yield of 4.6%, which means a $10,000 investment in the company will derive $460 in annual payouts.

Further, TD is one of the largest Canadian companies and is almost too big to fail. It has survived multiple recessions, and TD's strong balance sheet will help it through the ongoing crisis as well.

In the fiscal third quarter of 2021, TD's earnings stood at $2.3 billion, or $1.25 per share, compared to earnings of $1.5 billion in Q2. This sequential earnings growth was supported by moderate provisions for credit losses and a strong uptick in wealth and wholesale revenue. In fact, TD's provisions for credit losses fell by 32% on a sequential basis, which drove the bottom-line improvement.

TD Bank's low payout ratio and strong balance sheet also suggest a dividend cut is unlikely.

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