Big Bank Earnings Could Shake the Market Next Week: What to Expect

Description

This month, the broader market has seen a solid recovery after witnessing a sharp decline in a previous couple of months. In September and October, the **S&P/TSX Composite Index** fell by 2.4% and 3.4%, respectively. Multiple positive updates related to the COVID-19 vaccine have triggered a sharp rally in stocks lately. As of November 26, the key Canadian benchmark has seen a sharp 11.4% rise on a month-to-date basis.

While many companies are still struggling to overcome the pandemic-driven financial challenges, recent vaccine-related positive developments have raised investors' hopes of a fast-economic recovery. It's still unclear how soon the upcoming coronavirus vaccines could help business operations get back to normal.

Bank earnings could shake the market

Most major Canadian banks listed on the Toronto Stock Exchange will release their latest quarterly results next week. These earnings are critical not only for the banking sector investors but for all market participants, as they will reflect the current state of businesses and the economy. These factors will help investors set realistic expectations from their investments. That's why bank earnings releases have the potential to shake the broader market.

Bank earnings will start with **Bank of Nova Scotia** and **Bank of Montreal** releasing their Q4 of fiscal 2020 results on December 1. That will be followed by other major banks, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) announcing their quarterly results in the following couple of days.

Expectations from bank earnings

Analysts expect YoY (year-over-year) losses in most banks' earnings to continue, but the overall trend will improve in the latest quarter. For example, analysts estimate that Royal Bank of Canada and TD Bank Q4 earnings could reflect an 8% and 20% YoY drop, respectively, in the Q4 of fiscal 2020. Both of these banks managed to beat analysts' estimates in the last quarter.

In Q3, a sudden spike in capital markets volume and their wealth management income helped large Canadian banks report better-than-expected results. However, both RBC's and TD Bank's core banking segment badly suffered due to the pandemic-related restrictions.

During their latest earnings events, investors would be closely watching any signs of recovery in these banks' core banking operations. Also, a consistently strong performance in their wealth management and capital markets could add optimism.

Banking stocks are soaring

In November, all Canadian bank stocks are outperforming the broader market by a wide margin. As of November 26, the shares of Royal Bank of Canada, TD Bank, Bank of Montreal, and Bank of Nova Scotia were up 16.2%, 20.6%, 22.5%, and 17.2%, respectively, on a month-to-date basis. This was against the 11.4% rise in the TSX Composite — as noted above.

Interestingly, **Laurentian Bank of Canada** — the much smaller peer of these large banks — has turned out to be the top gainer bank stock this month, as it has gone up by 27.6%.

It could shake the market

While it would be important for banks to report improvements in their core banking operations to maintain the ongoing rally in their stocks, a significant drop in their capital markets and wealth management business could also hurt investor sentiment.

This is the reason why investors should try to be extra cautious next week while making investment decisions, as the banking sector earnings could shake the broader market.

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