Canadian Bank Stocks Could Be Major Winners in 2021

Description

Don't look now, but the Canadian bank stocks are back! The Big Six have been on a tear ever since **Pfizer** pulled the curtain on its remarkably effective COVID-19 vaccine. Vaccines are ready to roll out in the U.S. and the U.K. in a matter of weeks, and Canada may not be far behind, with a Q1 2021 rollout that's now looking likely.

With a 2021 end to the pandemic in the cards, the Canadian banks suddenly became investible again. Many investors expecting unprecedented dividend cuts in response to the equally unprecedented crisis are now having to buyback their Canadian bank stocks at much higher prices.

Before the great November vaccine news landed, there was no telling just how much more pain was coming for Canada's top financial institutions, which just came off a rare Canadian credit downturn.

Never count out the big Canadian banks

With minimal clarity on the vaccine timeline back in the dark months of spring and summer, many bears thought the pandemic could have lasted for years. Such a bear-case scenario would have undoubtedly crushed the Canadian banks, as they stood to be left holding the bag as a growing number of firms they lent money to became unable to repay their debts.

I'll admit it was tough to go against the grain, given the profound headwinds and the haze of uncertainty that made the Canadian bank stocks look the least investible since the depths of the Great Financial Crisis.

If you sided with history, though, you probably found it within you to go against the grain with either the Big Six or even one of the battered regional banks. The Canadian banks are Dividend Kings (or Aristocrats) that have been through their fair share of recessions, crises, and crashes.

They've risen out of the rubble every time, rewarding shareholders who stood by them during times of profound pessimism with outsized returns. Sure, when there's weakness in areas of the economy, things tend to fall right back to the Canadian banks. At the same time, they're typically among the first to come roaring back when it comes time to rebound.

Stand by the Canadian bank stocks

In prior pieces, I urged investors to buy any one of the Canadian banks after the vicious February-March market crash. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) was my favourite play, as it took on "amplified damage" for having one of the least attractive commercial loan books in the Canadian banking scene.

Despite still possessing capital ratios that were well above industry requirements, investors seemed to think that the worst was yet to come.

The financials and energy sectors were the last places you'd want to be during a worsening pandemic. As a Canadian bank with a considerable amount of oil and gas (O&G) loans, BMO gave investors exposure to two of the most rancid areas of the economy.

As a result, BMO stock nearly got cut in half and shares trading at a huge discount to their book value despite still being a premier bank that was still very well capitalized to deal with the provisions that were to come.

As it turned out, the panic, which was palpable back in early March, was overblown beyond proportion. And if you looked back to BMO (and the other Canadian banks') post-crash reaction to the Great Financial Crisis, then you likely didn't hesitate to back up the truck, as I suggested investors do before a vaccine breakthrough had a chance to happen.

Sometimes you've just got to hold your nose and buy the battered blue-chips like the Canadian bank stocks that have proven themselves over the course of decades, even if popular opinion deems that things are "different" this time around. Never discount history!

Foolish takeaway

Now that vaccines are ready to go, BMO and its peers have taken off. BMO shares are up over 73% from its March depths. Despite the recent run, the stock still has room to run in 2021 (possibly to $120).

Sure, the discount to book is gone, but the bank is far less risky these days, now that the pandemic's end is in sight. If you're looking for a catch-up COVID-19 recovery play, look no further than BMO and its juicy 4.4% yield.

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