CEOs of Canada’s Top Banks Have a Warning for Investors

Description

If there’s one thing that the leaders of top Canadian banks can agree on, it’s that the economy is in the midst of a recovery. But how long that recovery will take, however, is a whole other question, one that no one really knows the answer to. One thing that is for certain — the turnaround is going to take some time.

And while many of the big banks have slowly been showing signs of improvement in recent quarters, that doesn’t mean things will continue along that trajectory. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) CEO Bharat Masrani warned, “In the short term, things are going to be not as good as one might have hoped,” as rising COVID-19 cases are what’s slowing down the economy’s rate of recovery.

For investors, that means they need to remain patient, because it may take a while before the big banks (and other companies) are back to where they were before the pandemic. The key, according to Dave McKay, who is the CEO of **Royal Bank of Canada** (TSX:RY)(NYSE:RY), comes down to vaccinations, saying that “we believe roughly four and 4.5 million high-risk Canadians will have to be vaccinated before we can really get back to reopening the economy, and we can achieve that within 100 days, if we have the vaccines.”

Currently, the number of vaccinations administered in Canada sits above 300,000 and is nowhere near McKay’s number. The government’s goal is that by the end of September, everyone who wants a vaccine will be vaccinated.

The key takeaway for investors here is that even with vaccines for COVID-19 approved, it could still be several months (possibly into next year) before the economy is close to the levels it was at before the pandemic. In the meantime, earnings numbers will continue to lag. And that could result in a struggling share price. Investors shouldn’t assume that the worst is over just yet or that the big banks will continue building on their recent performances.

Over the past 12 months, the TSX has climbed 4%, while both RBC and TD have underperformed, rising by just 3% and 2%, respectively. And that's with both stocks rallying in recent months on the positive vaccine news.

Should you invest in these bank stocks today?

Shares of TD are trading at around $74, right around where they were this time last year, before the markets went over a cliff. That's a similar case for RBC, which, at around $108, has fully recovered from the stock market crash that took place in March 2020.

Unfortunately, the economy hasn't completely recovered. And there's still lots of uncertainty as to how strong the economy will be in the coming months. That uncertainty is why RBC and TD aren't good buys right now; their shares should be trading at discounts, and instead, investors are valuing them at roughly the same prices they were at before the pandemic hit.

There's also the possibility that there could be yet another, seismic correction in the markets that brings these stocks down significantly in value. Unless you can grab TD or RBC at big discounts, there may not be a whole lot of incentive to be buying them right now. With potentially soft earnings reports ahead, their stock prices could come down anyway, even without a crash taking place. If you want to buy either stock, the best move right now may be to just wait.

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1. Bank Stocks
2. Investing

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