2 Canadian Bank Stocks Likely to Outperform Over the Next Decade

Description

Canadian bank stocks are starting to look the most attractive they've been in many years.

The post-pandemic world is up ahead, and with talks of rate hikes that could start coming in over the next few years, it's not too far-fetched to think that top financials could be ready to enter the early innings of a multi-year rally. Canadian banks have been depressed for far too long. And they may be ready to make up for lost time, as they endure another several years' worth of thin net interest margins (NIMs) en route to what could be a rising rate environment that could be in the cards in as little as four years.

Without further ado, let's have a look at two of my favourites at this critical market crossroads in **TD Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

TD Bank

TD Bank was once a premier Canadian bank that was sought-after for its less-volatile retail banking business in Canada and the U.S.

The bank took a really hard hit to the chin amid a pandemic-plagued 2020, shedding its premium price tag it had versus its peers. While TD Bank did have a tougher time operating through the pandemic-plague world, I still think it deserves to command a hefty premium over its smaller brothers in the Big Six.

In recent months, TD Bank has been steadily climbing back, but I still view the name as being cheaper than many of its peers. TD Bank has a track record of being a more conservative lender, with lower loan losses and better capital ratios.

When it comes to the quality of earnings, it's tough to match TD Bank.

TD's conservative lending practices haven't come at the expense of growth either. With exceptional risk managers led by the legendary Bharat Masrani, TD Bank stock deserves to trade at a greater premium versus its peers.

Right now, investors are likely discounting the firm's stewardship and its ability to generate high-quality, low volatility earnings over time. That's a big opportunity for contrarians in search of more yield for less.

Royal Bank of Canada

When it comes to Canadian banking, bigger has, indeed, been better. **Royal Bank of Canada** (TSX:RY)(NYSE:RY), the biggest Canadian bank by market cap, has led the way over the past year, climbing back from the COVID-19 crash rapidly. At the time of writing, RY stock is back to where it was before the coronavirus sent shares tanking. With the post-pandemic world up ahead, I think Royal Bank stock could be on the cusp of a major breakout. And it's about time!

Just how could Royal Bank of Canada fly? Some of the more bullish analysts on the Street think RY shares could be headed to $129, suggesting another 19% worth of upside from current levels.

With the bank's capital markets and wealth management divisions continuing to exhibit strength, I wouldn't at all be surprised if the Canadian bank stock breaks out to new heights over the coming months. The 4% dividend yield is ripe for picking, and it's likely to grow at a rapid annualized rate as investors start contemplating rate hikes over the next five years.

Royal Bank stock is pricey bank, but it's pricey for a reason. There are many reasons to believe shares could become even pricier as the bank looks past pandemic pressures. Credit losses returned to normalized levels in the fourth quarter, and the top bank looks poised for major growth over the next three to five years.

CATEGORY

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
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Date
2025/08/25
Date Created
2021/02/22
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