Royal Bank of Canada (TSX:RY): A Top Pick for RRSP Investors

Description

Surging bond yields are weighing on growth stocks. There's no telling how much higher bond yields will rise over the coming weeks and months, but there are reasons to believe that good, old-fashioned value has been made great again after years of fading into the background.

RRSP investors shouldn't overreact by selling growth stocks amid this latest rotation. However, I would look to have a strong preference for value and cyclicals with new stock purchases, as inflation jitters could propel us into a rising-rate environment far sooner than expected.

For now, the U.S. Fed remains accommodative, at least until employment numbers can rebound. But as bond yields inch higher while the economy and inflation look to overheat in the post-COVID environment, the Fed could easily go from a friend of the investor to foe, as it did back in late 2018.

RRSP Investors: The case for buying value over growth stocks

Now, the actual rising interest rate environment is likely many, many years off. That said, RRSP investors would be wise to anticipate such an environment well beforehand, while valuations in less-growthy plays are still depressed.

Furthermore, the Fed may be running out of options if we are in for a faster or larger inflation spike. In this piece, I've compiled a list of three top Canadian value stocks that I think could outperform over the next three years, as value looks to make a comeback in anticipation of higher rates.

Without further ado, consider **Royal Bank of Canada** (TSX:RY)(NYSE:RY), a top Canadian bank that could be ready to surge again after years of underperforming the averages.

Royal Bank of Canada: A top pick for RRSP investors

Just a few months ago, several sell-side analysts turned their backs on the Canadian banks, with price target downgrades and price target cuts leading up to the U.S. presidential election. This was just weeks before the broader basket of bank stocks was bottoming out.

As it turned out, the big banks had finally reached a turning point. The first safe and effective COVID-19 vaccine was revealed by **Pfizer**, and the banks started releasing better-than-feared earnings reports, and they have not looked back. Royal Bank was the first Big Five bank to hit a new all-time high after nearly four years of being a roller-coaster ride to nowhere.

Royal Bank outperformed in 2020, thanks in part to intelligent moves made by management and strength in its capital markets and wealth management divisions. While net interest margins (NIMs) remain thin today, they'll stand to expand if we are, in fact, due for a higher-rate environment. If anything, the bank should serve as a hedge against central banks going back on their commitments to keep rates low.

In any case, Royal Bank and its peers will always find a way to drive profitability, regardless of which direction the wind blows. With a 3.9% yield, RY stock is a solid buy for RRSP investors at this market crossroads.

The Foolish takeaway

How much longer can the "lower-for-longer" interest rate environment last? With inflation in check, and the U.S. Fed focused on employment, it's easy to think that rates could be at the floor for another few years.

As inflation rears its ugly head and employment bounces back quicker than expected, we very well may see rates rise again, perhaps sooner rather than later. Such an environment bodes very well for Canadian banks like Royal Bank. So, if you're an RRSP investor with a five- to 10-year time horizon, it only makes sense to buy the banks here before headwinds have a chance to fade and NIMs start moving higher again.

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