Royal Bank of Canada (TSX:RY) Stock: A Retiree’s Must-Own

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) stock has had a great year in 2021 so far. Up 12% for the year, it has nearly doubled the TSX’s return. RY has benefitted greatly from investors moving away from tech stocks and toward value stocks. Ever since the COVID-19 pandemic began, experts believed that the re-opening of the economy would primarily benefit traditional industries that had been hit hard by the lockdowns initially.

Today, we’re beginning to see that prediction come true. The TSX Index and the Dow are both outperforming the tech-heavy NASDAQ for the year so far. And bank stocks have been among the biggest winners of all the value stocks that rallied this year. In this article, I’ll explain why Royal Bank of Canada is one value stock that’s particularly worth owning for retirees.

Solid earnings growth

One thing that Royal Bank has going for it is solid earnings growth. In its most recent quarter, earnings were up 10% year over year. The five-year trend is about 3.5% per year. Obviously, this isn’t explosive growth. But for retirees, it’s just the kind of earnings trend that makes sense. Companies that routinely double their profit every single year are often younger companies that trade at nosebleed valuations. The volatility is extreme, and dividends aren’t always in the picture. For retirees, mature, dividend-paying stocks are the name of the game. They provide the stability retirees need to get through their golden years without too much stress.

High dividend income

Speaking of dividends…

Royal Bank of Canada has a pretty high yield. As of this writing, it yielded 3.7%. That’s not as high as it was in the middle of last year, when COVID-19 was wreaking havoc in the markets. But it’s pretty good. With a 3.7% yield, you get $3,700 in cash annually on a $100,000 position. And your payout could grow over time. Royal Bank has a long history of dividend increases, so it’s entirely conceivable that your yield on cost tomorrow could be higher than your yield today.

A stock that actually benefits from rising interest rates

A final factor that RY has going for it is the fact that it benefits from rising interest rates.

In 2020, interest rates were at rock-bottom lows in both the U.S. and Canada — the two key markets that RY operates in. Low interest rates are good for most companies, but not great for banks, as they make money off of interest. The higher interest rates go, the higher banks' profit margins on loans.

And it just so happens that interest rates are rising right now — at least in the U.S.

As of this writing, the 10-year treasury yielded 1.68%. That's more than triple its yield at the bottom of the COVID-19 market crash, which was around 0.5%. The higher that yield goes, the higher mortgage rates are likely to go. Since RY makes a lot of its money off of mortgages, it could benefit significantly from the trend — specifically, if it starts to spill over from the U.S. into Canada.

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Date
2025/07/22
Date Created
2021/03/29
Author
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