



Canadian Banking Giants Could Surge in the Roaring 20s

Description

The Canadian banking giants like **TD Bank** and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) have been roaring back in a big way over the past year. Through the worst of last year's lockdowns, many investors felt jittery over the thought that banks would have to grapple with negative interest rates, soaring provisions for credit losses (PCLs), and meagre loan growth, potentially for years to come.

The headwinds faced by Canada's top banks couldn't have been stronger. There wasn't much of anything to be optimistic about. If you sided with history despite the seemingly insurmountable pressures, you did pretty well, and it didn't matter which bank stock you picked. They all breathed a massive sigh of relief when **Pfizer** revealed its incredibly effective vaccine breakthrough, which caught many investors by surprise.

All of a sudden, the market chatter about negative rates has all but vanished. And in their place? Rising rates.

Jitters over higher rates are back

Investors seem so worried about higher rates such that U.S. Treasury Secretary Janet Yellen's remarks on rate hikes were enough to spook investors and cause a vicious single-day sell-off led by tech stocks. Fed chair Jerome Powell remains as dovish as ever. Despite Yellen's clarification that she sees no need for Powell to hike rates, investors seem to be erring on the side of caution, with valuations now at the higher end of the spectrum.

Like it or not, inflation is coming, and it could overshoot, sparking the need for rate hikes far sooner than 2024. Surprises can happen, and investors would be wise to be ready for whatever unpredictable curveball Mr. Market throws at them next.

That means getting back into the stocks that will stand to benefit from higher rates and a booming economy. For the first time in years, the Canadian banking giants seem too good to ignore; just one year after it seemed like all hope was lost.

Like it or not, the “boring” bank stocks are the new momentum stocks. And as value stays in the driver’s seat of this market, I think the big banks are must-buys for any long-term-focused portfolio.

A new era of growth for the banking giants?

A CIBC analyst named Paul Holden seems to think that Canada’s banks will be “entering a new era of growth” on the back of a stimulus-driven economic recovery, the likes of which we may not have seen since WWII.

I think Holden is right on the money. The macro picture hasn’t looked this good for the banks in years, if not decades.

It’s been a [rough patch](#) for the Big Six over the past three years, as they navigated through a rare Canadian credit downturn that preceded the horrific coronavirus crisis. The rear-view mirror is dark, but the road ahead is absurdly bright. And with the tables poised to turn in a big way, now is as good a time as any to punch your ticket to your favourite banking giant, as they look to ride to new highs on the back of this bull market.

My favourite pick is Bank of Montreal, a name that nearly shed half of its value during the coronavirus crash, as small business and the oil patch crumbled in what seemed like an instant. With oil prices poised to make a run to US\$70, while small businesses have a weight lifted off their shoulders in the post-COVID environment, I’d say BMO stock still has much to gain in a return to normalcy. BMO was the scariest a year ago. Now, I think it’s one of the sexier plays of the Big Six banking giants.

Foolish bottom line

It’s been a long time coming for the big banks. So, if you’ve got the inflation or rate hike jitters, it may be wise to hedge your tech bets with Canada’s top banks, which still seem [too cheap](#) for their own good, even after their historic recoveries.

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