Canadian Bank Stocks Are Crushing it in 2021

Description

Canadian bank stocks are crushing it in 2021 so far. The **iShares S&P/TSX Capped Financials ETF** (TSX:XFN) is up 21.3% for the year to date, far ahead of the **TSX composite index**. If you'd invested $10,000 in Canadian banks at the start of the year, you'd already be up to $12,130–and that's not including dividends. In this article I'll explore Canadian banks' epic 2021 run and whether it can continue.

Banks beat the market

So far in 2021, TSX banks have beaten the market by a wide margin. As the chart below shows, they have nearly doubled the TSX.

Such a high degree of outperformance is highly unexpected. Last year, many hedge funds bet heavily against Canadian banks, figuring that they were underestimating the risk factors they faced. In a way, they were right: Banks *did* crash hard in 2020. But they quickly bounced back stronger than ever. Now, many Canadian bank stocks are at all-time highs.

The case of TD Bank

The **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is a perfect example of a bank stock that's crushing it in 2020. Up 23.5% for the year, it has easily outperformed the TSX–and even XFN.

TD Bank has a lot of things going for it in 2021.

First, its most recent quarter was a big winner, with earnings up 144% year over year. Gains were driven by lower loan loss provisions, higher earnings from **Charles Schwab,** and a stunning 292% jump in U.S. retail earnings.

Second, the bank's U.S. retail division provides plenty of room to grow that other Canadian banks don't always have.

Third, the investment in Charles Schwab is paying off handsomely and may continue to grow from here on out.

Taken together, all of these factors point to TD Bank having plenty of room to grow into the future. And to some extent, it's the same for other Canadian banks. All of the Canadian banks are gaining from the post-COVID-19 economic recovery. Whether you want to bet on a single bank like TD or invest in an ETF like XFN, you could do very well.

Foolish takeaway

2020 was a challenging year for Canadian banks. Between mortgage deferrals, oil & gas loan defaults, and general weakness in the economy, they had a lot of problems to deal with. But now, it's becoming clear that those who bought banks on the dip made the right call. If you'd bought TD Bank at its lowest price last year–$53–you'd be up about 65% today. Some of these stocks are getting pretty close to doubling the money of investors who bought at the low level seen in 2020.

This demonstrates the wisdom of buying when there's blood in the streets. The markets are never completely rational, and steep, pronounced downturns can present rewarding opportunities to buy. That goes for Canadian banks, tech stocks, or any other asset class with a bright future ahead of it.

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