



National Bank Is Looking Like a Competitive Threat to its Peers

Description

This global pandemic has not spared many sectors from volatility. Among the sectors hardest hit is the banking sector.

However, as with many economically sensitive sectors, banks have rebounded significantly of late. And **National Bank** ([TSX:NA](#)) is one of those smaller Canadian banks that has really outperformed of late.

National Bank is now trading well in excess of its pre-pandemic highs. In fact, in recent days, this stock has made new all-time highs.

Let's look at why this is the case, and why investors are jumping on smaller regional banks right now.

Competition heating up

One of the primary theses behind the rise of Canadian small-cap banks like National Bank is the idea of an improved competitive landscape for these lenders.

Indeed, National Bank has done well to take advantage of the pandemic in creative ways its less-flexible, mega-cap peers haven't been able to do. The lender recently launched its National Bank Direct Brokerage program to help its patrons cope with pandemic-related difficulties. This program has been a huge hit. Accordingly, National Bank has emerged as a leader in discount brokerage offerings among the leading brokerages in Canada.

With the rise of zero-fee trading and discount brokerage services taking off, National Bank is well positioned for growth. Canadian discount brokerages have been slower to adopt these policies compared to U.S. counterparts. However, investors in National Bank appear to like the direction this bank is heading.

Diversifying the company's revenue streams in a fast-growing market appears to be something investors like. I'm of the view this move is one that could pay dividends for investors for a long time to come.

Bottom line

National Bank is an intriguing smaller bank I think has the growth potential to outperform its larger peers over the medium term.

However, investors need to decide whether this growth is already priced in at these levels. After all, National Bank has been among the best performers of its banking peers of late.

Those who bought this stock a long time ago and are still holding may look to simply hold from here. After all, this stock provides a relatively healthy dividend yield of 3% in addition to any capital appreciation investors may receive from here.

National Bank offers long-term investors with lots of growth upside relative to the sector. That said, it's a higher-risk play, as all regional banks are. Currently, I'm on the sidelines with this name, though I do see the potential for outsized growth for aggressive investors. The risk/reward relationship with National Bank appears to be solid right now. Accordingly, investors looking to add some exposure to this name may continue to be well rewarded at these levels.

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1. Bank Stocks
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