



2 Big Bank Stocks Poised for Huge Gains in 2021

Description

The soundness of Canada's banking industry is on full display again in 2021. Investors should have [no reservations about investing](#) in the Big Six banks following the blockbuster earnings results in Q1 fiscal 2021. The financial services sector (+21.11%), where bank stocks are constituents, also outperforms the **TSX** (+13.87) thus far this year.

Banks' profits are indeed soaring, as evidenced by the sizeable earnings in Q2 fiscal 2021. The significant reduction in the provision for credit losses (PCLs) is fuelling the surge. Many were expecting the delinquency bucket to fill up due to default in payments by consumers and businesses. However, delinquencies didn't rise as feared.

While the CEOs are optimistic about Canada's economic future, they remain cautious because the country is nowhere near the pandemic's end game. For investors, any of the bank stocks are [excellent investment prospects](#). But if I were to pick my anchors, the top two banks are must-own assets. Both are well-positioned for huge gains.

Number 1

The **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is the largest lender with its \$179.02 billion market capitalization. It's also the second-largest publicly listed company on the TSX after e-commerce platform **Shopify**.

RBC's net income in Q2 fiscal 2021 (quarter ended April 30, 2021) ballooned 171% to \$4 billion compared to Q2 fiscal 2020. Notably, PCL on loans decreased \$2.8 billion from a year ago. CEO Dave McKay said, "The strong momentum we've achieved in the first half of 2021 reflects our focused strategy to deliver exceptional experiences and create more value for clients."

McKay adds, “While there is a reason for optimism as recovery continues to take hold, we know the pandemic’s path forward still poses challenges.” The wealth management business reported the highest gain in earnings in the most recent quarter. RBC’s profits from investment products and transaction accounts, including mutual funds, surged 63% versus the same quarter in 2020.

Number 2

The **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is just as formidable as RBC. Canada’s second-largest bank (\$158.35 billion market capitalization) reported a 144% increase in net income in Q2 fiscal 2021 compared to Q2 fiscal 2020. PCL is down to \$105 million in the first half of 2021 versus the \$1.54 billion in the same period last year.

TD Bank Group’s President and CEO Bharat Masrani cited three reasons for the strong quarterly results. He points to the improving economic conditions, the approach to managing risk, and the strength of TD’s diversified businesses. The Canadian retail business was the biggest profit contributor. This business segment earned 86% more than in Q2 2020.

According to Masrani, as economies plus consumer and business activity recovers, TD would continue to invest in its people, capabilities, and technology to position the bank for growth. By the second half of 2021, TD expects to complete its purchase of Headlands Tech Global Markets, a Chicago-based quantitative fixed income trading company. On May 1, 2021, TD acquired **Wells Fargo’s** Canadian Direct Equipment Finance business.

Everlasting dividends

As of May 24, 2021, the share prices of RBC and TD are \$125.62 and \$87.07, respectively, while the trailing one-year price return is 40.62% and 47.63%. If you were to invest today, RBC’s dividend is 3.44%, while TD yields 3.63%. Paying dividends is in both banks’ DNA. These two Big Six banks have delivered dividends for more than 150 years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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