



2 Top Canadian Bank Stocks to Buy As Rates Rise

Description

Rising rates don't have to be bad news for Canadian investors, especially for those who've been feeling the [pain of underperformance](#) in the Canadian bank stocks over the years before 2021.

Talks about inflation and the need for interest rate hikes have propelled the Canadian bank stocks into full-on rally mode. Many of them are at fresh all-time highs, and given the positive macro backdrop, there are reasons to believe this big bank rally may be worth banking on.

As the Fed moves on from "not even thinking about thinking about" raising rates to actually raising rates, the banks could outperform the broader market indices in a big way.

The Canadian bank stocks still look cheap!

While the recent rally in Canadian bank stocks has been remarkable, it's worth mentioning that many of them still look [undervalued](#) on a forward price-to-earnings (P/E) basis.

Two of my favourite bank stocks **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) trade at 11.7 times and 10.7 times next year's expected earnings, respectively, at the time of writing.

Both sets of forward P/E multiples are skewed on the lower end of the historical range. Even after an incredible past year of market-crushing performance, the valuations seem to be suggestive of more of the same moving forward, as the big banks look to reaccelerate their earnings growth after one of the toughest years since the Great Recession.

With the bank stocks at the intersection between momentum and value, I'd strongly encourage investors to initiate a position now and over time rather than dismissing them for their past year of outperformance. Unlike the speculative momentum investments that many beginner investors chased to their peak over this past year, the big bank stocks have real profits backing them. And as rates inevitably rise, more tailwinds will come online for the Canadian banks, most notably, net interest margin (NIM) expansion.

TD Bank

TD Bank recently clocked in some incredible second-quarter results, with earnings surging by 144% year over year. Indeed, the alleviation of COVID-19 pressures was the primary reason why growth was off the charts. Such growth will decelerate going into year's end, as year-over-year comparisons become less drastic. Still, TD deserves a huge round of applause for surpassing analyst expectations, with \$2.04 in EPS, surpassing the consensus estimate, which called for \$1.76 in per-share earnings.

Canada's most American bank is going strong, and I think it'll regain its premium price tag versus its peers in time. Heading into year's end, I'd look for TD and its brilliant CEO Bharat Masrani to make a big splash on the acquisition front. A U.S. deal could be in the cards, and if the right price is struck, I suspect TD stock could continue to add to its glorious rally.

Bank of Nova Scotia

Bank of Nova Scotia came off a solid second quarter of its own, posting \$1.90 in EPS, handsomely beating expectations that called for \$1.76. Unfortunately, revenues came up short due to weakness in the international business. Still, as COVID-19 headwinds abate, I do suspect that Bank of Nova Scotia will bounce back, albeit at a slower rate than some of its peers.

Management noted that it sees a "lagging" recovery in its Latin American business. Nevertheless, I think patient investors willing to wait for the Pacific Alliance countries to recover have a lot to gain by going against the grain. Bank of Nova Scotia is Canada's most international bank and it'll be subject to greater bouts of volatility and amplified damage when times are bad. Once the tides turn, though, the bank is capable of commanding greater growth numbers.

Overall, Bank of Nova Scotia's second quarter was bittersweet. That said, I do think it was far sweeter than investors gave it credit for given the much lower provisions for credit losses (PCLs) and the ever-improving industry backdrop.

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2. NYSE:TD (The Toronto-Dominion Bank)
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Author

joefrenette

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