



Why Big Canadian Banks Look Attractive Right Now

Description

Could the comeback of the Canadian banking giants like **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) be any more triumphant?

After the initial hit these stocks took as the pandemic took hold, there was a rising concern among investors about the ability of the banking sector to bounce back. Everything from negative interest rates to increasing loan-loss provisions and negligible loan growth plaguing the economy pointed in the wrong direction.

Fast forward a few months, and the effective vaccine rollouts have changed the outlook for most investors. With yield curves steepening and the outlook changing, these stocks are soaring.

Here's why [more upside](#) may be on the horizon for these banking behemoths.

Investors eyeing growing cash piles

Increasing cash piles at Canada's Big Six banks are driving dividend-growth expectations. Indeed, once regulators give the green signal to resume dividend hikes, RBC and BMO should do so. For RBC, expectations are that dividend growth could be massive — something on the order of 30% this year.

Now, that's a big increase. And it's just speculation at the moment. But such an increase would be material and would give investors yet another reason to buy these stocks right now.

However, perhaps the most important factor investors in the banking sector are looking at right now is the propensity to lend. Canadian banks are picking up loan volumes once again, as credit quality increases. The hope is that these trends will continue, and RBC and BMO will both have the cash flow to provide further share buybacks and dividend hikes over the long term.

Strong books fueling the charge

In the recent earnings reports of both RBC and BMO, these banks reported massive reductions in provisions for credit losses. These reductions fueled incredible earnings beats, the likes of which many did not expect. I certainly find myself in this camp.

While I thought earnings were likely to be good, both banks beat by wide margins. Accordingly, these stocks have continued to soar as investors price in more upside on the horizon.

Accordingly, investors bullish on the forward-looking outlook may be rewarded by continued outperformance in the near term. I think such performance is likely, and don't see a slowing of this trend just yet.

Bottom line

Given the speed of the vaccination ramp up in Canada and globally, these two banks should perform well in a post-pandemic environment. As long as credit quality continues improving and economic activity remains robust, investors have two gems on their hands.

These stocks are best served as core holdings in a long-term investing portfolio.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Bank stocks
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3. dividend
4. dividend stock
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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BMO (Bank Of Montreal)
4. TSX:RY (Royal Bank of Canada)

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