



Time to Get Greedy With Canadian Bank Stocks?

Description

Shares of the Big Six Canadian banks have really [slowed](#) down in recent weeks, as COVID-19 cases rise. Undoubtedly, more COVID-19 restrictions and lockdowns could pose a threat to the Canadian economy's recovery. The latest quarter's GDP numbers were not great, with the economy contracting by just over 1%.

Is it something to be alarmed over? I don't think so. But if the [Delta](#) variant (or any other variant of concern) cases pick up as the back-to-school season moves forward, there is a risk that Canada could fall into a recession once again. A recession would make rate hikes by the Bank of Canada harder to justify. And, as a result, rock-bottom rates could be in the cards for far longer than anyone expected.

When will the Bank of Canada raise rates? Given recent economic data, I'd argue it'll trail the U.S. Federal Reserve by at least a quarter or two. Undoubtedly, Canada's top financial stocks would view higher rates as a much-needed tailwind. But it's a tailwind that bank investors may have to wait a bit longer for, as pandemic risk continue to weigh on stocks across the board.

Investor beware: Pandemic uncertainties remain as high as ever

This pandemic seems to be nearing its end. But honestly, nobody knows at this point, not even the top doctors monitoring the situation very closely. The pandemic remains unpredictable, and its impact on economic policy remains one of the biggest question marks today.

One thing is for certain, though: Canadian banks were built for resilience. Their capital ratios held the fort steady last year, and the same can be expected moving forward, even if in the low chance that we haven't seen the worst of this pandemic yet. Credit quality has improved drastically for Canadian banks. And while the rate of improvement could slow over coming quarters, don't expect a repeat of the devastation that happened in early 2020.

The banks are great buys here, even if loan growth tapers off into year-end. Right now, **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) looks to be my favourite picks in the space heading into Q4. TD is a proven leader, and National Bank is an underdog that has shown it's worthy of joining the likes of its five big

brothers, which have remained dominant for decades.

TD Bank: Deeply discounted, but should you buy it while it's in a slump?

Do you remember when TD Bank stock used to be worth a premium to its peers?

It's been a while, but ever since the pandemic struck, the premium has vanished. Indeed, TD has delivered solid, albeit lacking quarters over the past year and a half. But over the long run, I still think TD is a premium bank worth a heftier price tag to most of its peers in the Canadian banking scene.

TD has a wonderful management team, growth in the U.S. market, a rock-solid retail business, enough flexibility to make a big acquisition, and is arguably best positioned to rocket once it comes time for the Bank of Canada to finally push us into that rising-rate environment.

Nobody knows when higher rates will arrive. But if you're looking to hedge against it, I think it's tough to find a better value than TD here. Not much has changed in terms of the fundamentals since 2020 wiped out TD's relative premium valuation.

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