



Canada Election: Are Bank Stocks in Trouble?

Description

Canada's Big Six banks are renowned for their stability compared to their global peers. The country's top financial institutions came out of the 2007-2008 crisis with bragging rights. Bank stocks have performed well over the past decade. Predictably, these equities were hit hard in the beginning of the COVID-19 pandemic in early 2020. However, bank stocks have [bounced back nicely](#). **BMO Covered Call Canadian Banks ETF (TSX:ZWB)**, which aims to track the performance of Canada's top bank equities, has [climbed 27% year over year](#) as of close on September 10.

Prime Minister Justin Trudeau opted to call a snap election this summer. Canadians will take to the polls on September 20. It has been a historically bitter campaign, and Trudeau's Liberals have sought to offer more radical solutions to appease a disgruntled voting public. One of those promises has the potential to hit Canadian banks. Should investors be worried about bank stocks? Let's dive in.

Should investors be worried about bank profits being targeted?

In late August, Justin Trudeau pledged to impose a 3% surtax on the country's big banks and insurers. This would only apply to financial institutions with a profit that exceeded \$1 billion annually. The policy is expected to generate \$2.5 billion in revenues for the government over the next four years, starting in 2022. This is according to the official Liberal party platform.

The Canadian Bankers Association was quick to denounce the proposal, saying the move would be a detriment to economic growth. Trudeau's Liberals were gunning for a majority when he dropped the writ. However, that appears a distant hope according to recent polls. Trudeau's Liberals have inched out in front of the Conservatives with a week to go before September 20. There is a slim chance the Liberals will capture a majority but still a very good chance that they capture a plurality of seats.

The top bank stocks can still be trusted

Another minority government may not be something to celebrate, but it will probably prevent this kind of proposal from being pushed through in the years ahead. Investors should still look to snatch up

Canada's top bank stocks in the middle of September.

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is the largest financial institution in Canada. Shares of this bank stock have climbed 23% in 2021 as of close on September 10. However, the stock has dropped 1% in the month-over-month period.

In Q3 2021, Royal Bank delivered net income growth of 34% year over year to \$4.3 billion. Meanwhile, its diluted earnings per share jumped 35% to \$2.97. Net income was reported at \$12.1 billion or \$8.39 on a diluted EPS basis for the first nine months of this fiscal year. That is up 48% and 50%, respectively, from the same period in 2020.

This bank stock possesses a favourable price-to-earnings (P/E) ratio of 12. Royal Bank last paid out a quarterly dividend of \$1.08 per share, representing a 3.3% yield.

TD Bank ([TSX:TD](#))([NYSE:TD](#)) is the second-largest Canadian bank by market cap. It also delivered strong earnings growth in Q3 2021. Adjusted net income rose to \$10.7 billion or \$5.83 on a per-share basis — up from \$6.99 billion or \$3.76 for the first nine months of 2020. Shares of this bank stock have increased 14% in 2021.

This bank stock boasts an [attractive](#) P/E ratio of 9.7. Better yet, it offers a quarterly distribution of \$0.79 per share. That represents a 3.8% yield.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

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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)
5. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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