



What's the Best Canadian Bank Stock to Buy for Your RRSP?

Description

The Canadian banks have all delivered great long-term returns for [RRSP](#) investors, and owning the financial institutions as core picks remains a popular strategy for both dividend growth and capital gains.

Analysts often recommend picking the laggard among the five largest Canadian banks at the end of each year with the idea that the stock will catch up to its peers. In 2021, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **TD** ([TSX:TD](#))([NYSE:TD](#)) are in a battle for last place when it comes to stock price gains in the calendar year. We still have a few months to go, but let's take a look at Canada's number three and number two banks, respectively, by market capitalization to see if one is a better buy today.

Bank of Nova Scotia

Bank of Nova Scotia is up 15.5% in 2021 at the time of writing. In any other year that would be considered a fantastic performance.

The stock has trailed some of its peers due to investor concerns about international operations. Bank of Nova Scotia is betting big on Mexico, Peru, Chile, and Colombia. These four countries are members of the Pacific Alliance trade bloc set up to enable the free movement of labour, capital, and goods. The four countries have even linked their stocks markets.

With more than 230 million people and banking penetration that runs at less than 50%, you can see the potential for Bank of Nova Scotia to generate strong long-term revenue and profit growth as the middle class expands. Businesses operating in all four markets need a host of cash management services and people will increase borrowing and boost deposits as their wealth improves.

However, emerging markets carry risks that go with the opportunities. Latin America has a long history of political turmoil and civil unrest is still possible. Economic challenges also weigh heavily on the Pacific Alliance countries right now due to the impacts of COVID-19. In addition, these economies rely on strong markets for oil, copper, and other commodities to drive economic growth.

Bank of Nova Scotia's fiscal Q3 results show that the pandemic pain is easing in the international business and profits are rebounding.

The stock currently trades near \$78 per share. That's up from the 2020 low near \$50 and off the 2021 high around \$82. Investors who buy the stock today can pick up a 4.6% dividend yield.

TD

TD trades near \$82 per share at the time of writing compared to a pandemic low of \$53 and a 2021 high of \$89. The stock is up 14% so far in 2021.

TD's international focus is primarily in the United States. The bank spent billions of dollars in the past 15 years to buy regional banks south of the border with a focus on the east coast. TD's branch network in the United States is actually larger than the one in Canada and runs from Maine to Florida.

TD offers investors good exposure to the U.S. economy through a Canadian bank. The company has a great track record of dividend growth and investors should see a big payout increase when the banks get the go-ahead to increase distributions again from the government.

TD's current dividend provides a yield of 3.9%.

Is one a better buy?

Bank of Nova Scotia and TD are both top RRSP stock picks that should deliver solid long-term returns. Bank of Nova Scotia offers a better dividend yield right now, but likely also carries more medium-term risk. TD is currently the worst performer of the big Canadian banks for the year and has attractive U.S. operations.

I would probably split a new RRSP investment right now between the two banks. This would provide a 4.25% yield and give exposure to Canadian, U.S., and Latin American growth.

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