



Bear Market: Is it Time to Buy Canadian Bank Stocks?

Description

A [bear market](#) may be starting from the potential domino effects of the **China Evergrande** problem. After a superb rally from last year's pandemic market crash, the Canadian bank stocks are bound for a pullback — something that investors will welcome with open arms.

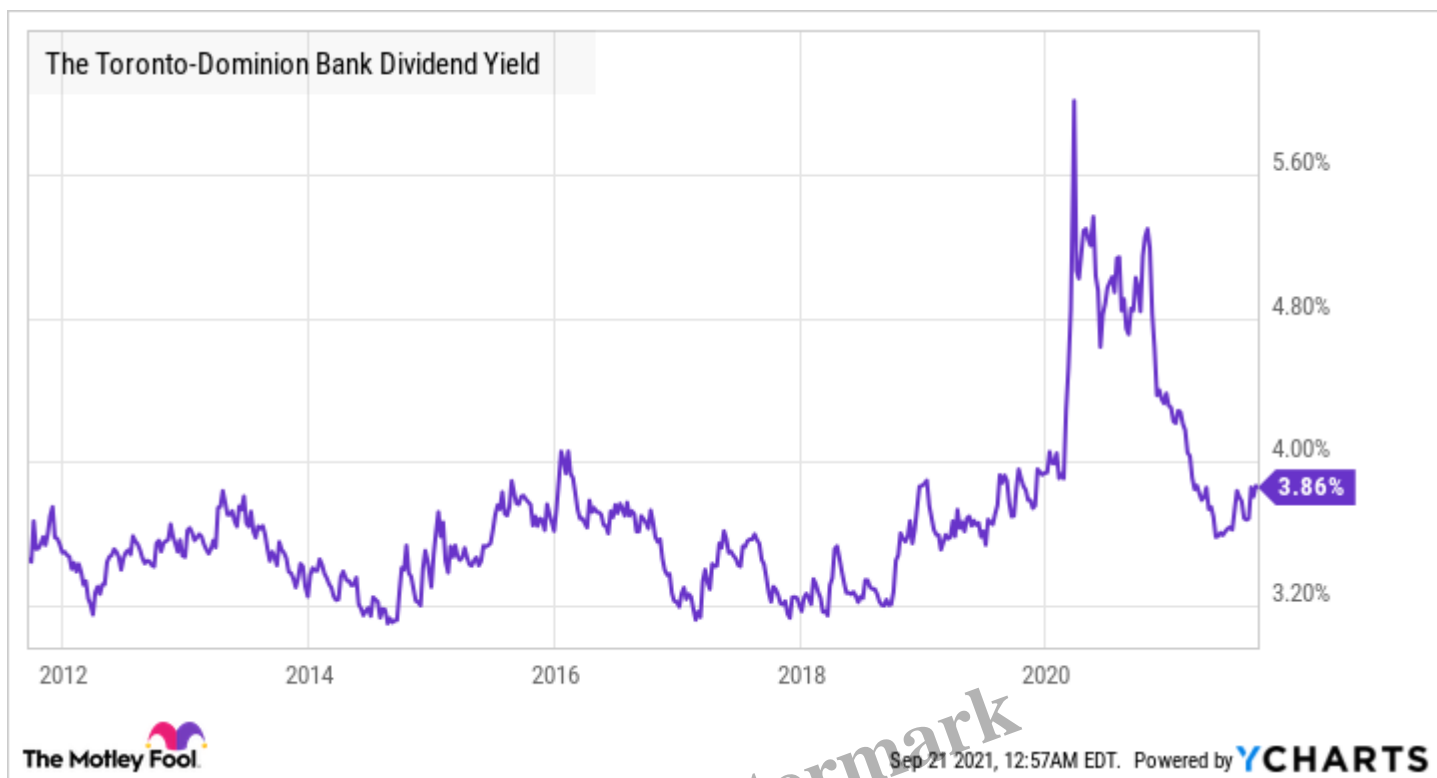
Just how big of a pullback should you wait before buying shares of your favourite Canadian bank stocks? It's not easy to decide, because the regulators have prevented the banks from increasing their dividends. Investors have been waiting and waiting for a dividend increase, which would incentivize more buying in the solid dividend stocks.

If anything, the Evergrande event could further delay the bank's dividend increase, as the uncertainty of the global economic landscape just escalated to a new level.

That said, some Canadian bank stocks appear to be more attractive than others based on their dividend yields. I compared the bank stocks (to their recent historical levels), but not to each other, because they are unique in their own ways. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) seem to be more attractive.

Why buy TD Bank stock?

The chart below displays TD stock's yield in the last 10 years. Ignoring the once-in-a-blue-moon opportunity during the pandemic market crash last year that pushed its yield to abnormally high levels, the quality bank would be a good buy at close to a yield of 4%.



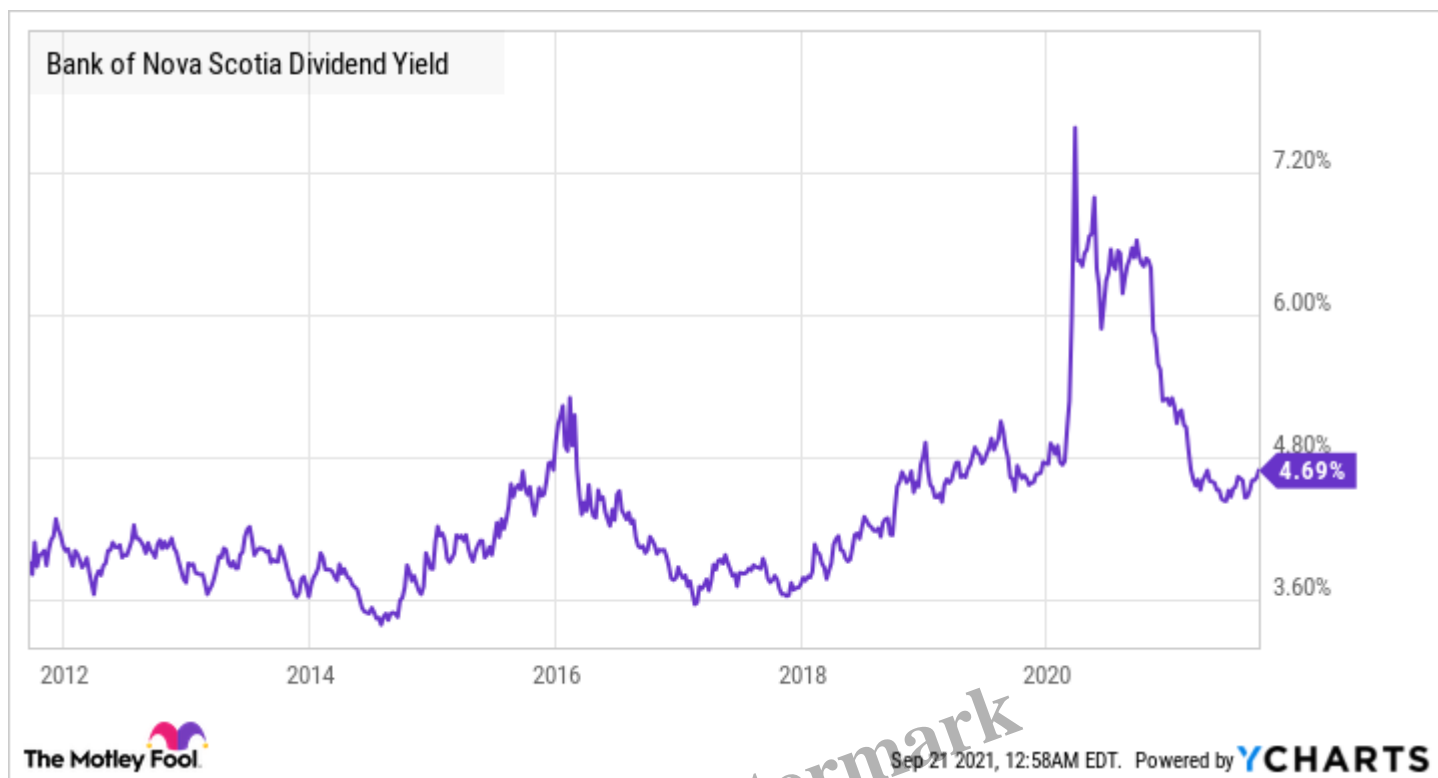
TD Dividend Yield data by YCharts.

At \$81.86 per share at writing, the yield of 3.86% is wonderfully close to the 4% yield. Because of the uncertainties surrounding the pandemic, TD Bank has frozen its common stock dividend and kept it the same for seven consecutive quarters. If you assume that normally, the bank stock would have increased its dividend every four quarters, its dividend yield would be close to 4.1% instead. So, buying the dividend stock at current levels makes good sense if you believe a normalization will occur when the skies clear a bit.

Buy Bank of Nova Scotia stock for income

Similarly, I went through the same exercise with Bank of Nova Scotia. The international bank is a decent buy for income, especially if you compare its yield to the other banks' yields.

No bank would beat Bank of Nova Scotia if passive income is what you seek. At \$76.72 per share, the bank stock provides a safe yield of 4.69%.



BNS Dividend Yield data by YCharts.

Bank of Nova Scotia's dividend freeze has been longer than TD's. BNS stock has kept its dividend the same for nine quarters straight. If you assume that, normally, the bank stock would have increased its dividend every half a year, its dividend yield would be close to 5.1% instead. Again, if you believe a normalization will occur, BNS stock would be a good buy for income at current levels.

The Foolish investor takeaway

Should you buy the big Canadian bank stocks today? Given that we don't know how long the regulators will stay cautious for the pandemic new normal and now the [China Evergrande](#) problem that could escalate and affect the global economy, investors might wait for the bank stocks to potentially become even more attractive during a fully fledged bear attack on the markets. If you really must add banks to your portfolio, first consider TD Bank and BNS, which appear to be more enticing.

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