2 Banking Stocks to Consider as the Sector Slumps

Description

The financial sector experienced a sharp slump about a week ago. But it didn't last long. The sector made a U-turn (which looks like a V in the financial index) and has already started to climb up. Both the slump and the supposed "recovery" were led by the banking industry — the heavyweights of the finance sector.

But it can't be denied that the banks have grown too much and too fast compared to their regular growth pace. The valuation of most of the banks has been pushed just a bit above the fair-value levels, and with each new week of upward growth, the potential for a correction builds up.

The banking sector might eventually slump, though not as fast as some other sectors. The probability is relatively high. You might consider buying two banking stocks when it does.

A bank stock for dividends

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is currently offering a juicy 4% yield — the second-highest yield among the Big Five. The post-pandemic growth was also almost in line with the other banks, and the stock has grown about 43.8% in the last 12 months, although the growth started stagnating in early June. The value has grown less than 1% since then.

The bank is also going through a "makeover" phase and has released a new logo, and its new look is now on display. It's also focusing on marketing its new motto about helping make its clients' dreams a reality more aggressively. This, along with the digital transformation and an expanding reach in North America, looks quite promising.

The banking giant might be able to reach more people and grow its business in this digital age. This alone can be enough to push this smallest of the Big Five up in ranking.

A bank stock for growth

The growth of **Bank Of Montreal** (TSX:BMO)(NYSE:BMO) has been significantly more aggressive than CIBC's. It grew about 64% in the last 12 months, which is by far the best post-pandemic growth among the Big Five. Unfortunately, before the pandemic, the bank wasn't much of a grower, at least for the past five years. But if you are planning to hold the stock for a few decades, you can expect a modest growth rate.

The 3.3% yield is attractive enough. But if a correction is coming, and the bank stock is expected to slump, you might be able to grab it at a much better valuation and lock in a more attractive yield. BMO's investment products have always been one of the bank's strongest suits. And BMO's head of wealth management moving on to manage Fidelity's US$ 4.1 trillion personal investing division endorses that fact.

Foolish takeaway

The banking slump has been temporarily delayed, and it might not come around for a while. The exact trigger can be anything from weak earnings in the next quarter to a distressed housing market. But you should be on the lookout for a correction and the consequential slump to bag these Dividend Aristocrats for long-term holding.

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1. Bank Stocks
2. Dividend Stocks
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