Are Bank Stocks the Best Investment in Canada Right Now?

Description

Canadian bank stocks have thrived in 2021. The **BMO Covered Call Canadian Banks ETF** (TSX:ZWB), which aims to invest in funds that offer exposure to Canadian bank equities while also mitigating downside risk, has climbed 19% so far this year. Today, I want to discuss whether bank stocks are still a great investment in this economic environment. Let's dive in.

Canada's economic rebound has started to slow

Last Friday, Statistics Canada released its GDP report for the month of July. The economy contracted by 0.1% in July, as agriculture suffered a sharp 5.5% dip. Meanwhile, the accommodation and food services sector expanded by more than 12%. As of this report, the economy has still failed to recover to its pre-pandemic levels. The slip in key industries like manufacturing, construction, utilities, and others has some economists concerned about a broader slowdown.

Back in April, I looked at bank stocks worth picking up as the economy recovered. This pullback may cast Canadian bank equities in a different light, at least in the near term. **Royal Bank of Canada** (TSX:RY)(NYSE:RY), the country's top financial institution, has seen its shares slip 1.5% month over month. The stock is still up 22% in the year-to-date period.

Royal Bank delivered net income growth of 34% in the third quarter of 2021. This bank and its peers benefited from a big drop in provisions for credit losses, as financial institutions were able to take a breather compared to the chaos that rattled the economy during the onset of the pandemic. Royal Bank stock possesses a solid price-to-earnings ratio of 12. Meanwhile, it offers a quarterly dividend of $1.08 per share. That represents a 3.3% yield.

How will bank stocks perform in this environment?

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the second-largest financial institution in Canada. I suggested this bank stock coming heading into early July. TD Bank boasts significant exposure in the United States, especially in the retail banking space. While the U.S. economy has thrived in 2021, some economists are now warning of a slowdown. Moreover, negotiations over the Biden administration's infrastructure plan have hit multiple snags. There is also the lingering issue of the COVID-19 pandemic that threatens to limit potential growth.

Shares of this bank stock have climbed 18% in 2021. However, its growth has slowed significantly in recent months. It still boasts an attractive P/E ratio of 10. Meanwhile, TD Bank offers a quarterly dividend of $0.79 per share. That represents a 3.7% yield.

Scotiabank (TSX:BNS)(NYSE:BNS) is another Canadian bank stock with a major interest in international markets. It possesses a significant interest in Latin America, one of the hardest-hit economies in 2020. Shares of Scotiabank have climbed 14% in the year-to-date period. The bank stock is down marginally over the past month.

Like Canada, the broader Latin American economy is not expected to grow back to pre-pandemic levels by the end of 2021. Still, its rebound has been encouraging given the challenges it faced in the prior year. Scotiabank stock last had a favourable P/E ratio of 10. Moreover, it pays out a quarterly dividend of $0.90 per share, representing a very solid 4.6% yield.

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3. NYSE:TD (The Toronto-Dominion Bank)
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