4 Reasons to Buy Royal Bank (TSX:RY) Stock Before Earnings

Description

Royal Bank (TSX:RY)(NYSE:RY) is the largest financial institution in Canada. It boasts the biggest market cap on the **S&P/TSX Composite Index**. Shares of this top bank stock have climbed 25% in 2021 as of close on November 22. Today, I want to look at four reasons Royal Bank is worth adding, as it is set to release its fourth-quarter and full-year 2021 earnings on December 1.

Canada's economy has enjoyed a solid recovery since the start of the pandemic

Back in April, I'd discussed why bank stocks were a great target, as the Canadian economy continued its recovery. Canada's economy added 31,000 jobs in the month of October. This fell below September's job gains but was still enough to push Canada's jobless rate down to 6.7%.

Canada's economy now has recorded more employment than it did before the COVID-19 pandemic hit in 2020. However, there are some troubling numbers that suggest the jobs recovery is running out of gas. Meanwhile, the Canadian economy fell short of expectations in the third quarter due to ongoing supply chain issues. There are hopes that the holiday season will bring about a return to form.

Royal Bank's year-to-date results have been very strong

Royal Bank unveiled its third-quarter 2021 results on August 25. Net income increased 48% from the prior year to $12.1 billion in the first nine months of 2021. Meanwhile, it achieved adjusted diluted earnings-per-share growth of 50% to $8.39.

Net income rose 11% from the previous quarter to $205 million. It was bolstered by lower provisions for credit losses and average volume growth of 2%. Meanwhile, net income in Wealth Management climbed 7% to $47 million. Royal Bank's Insurance segment delivered net income growth of 25% to $47 million.

Canada's top bank stock looks poised to deliver another strong quarter to close out the year.

Rate hikes could provide a boost to Canadian bank stocks

The Bank of Canada (BoC) recently announced that it would move away from its quantitative easing bond-buying program. Moreover, oddsmakers expect that the central bank will move forward on a rate hike as early as March 2022. The 18-year high inflation rate hit in September and October has put even more pressure on the BoC.

Rate hikes have the potential to rustle markets that have gorged on accommodative monetary policy since the start of the pandemic. However, higher rates should also boost profit margins at Canada's top financial institutions. Earlier this month, I'd suggested that investors target ETFs with exposure to big players in the financial space to prepare for interest rate hikes. There is no bigger player than Royal Bank in the Canadian financial space.

Royal Bank stock still offers solid value right now

Shares of Royal Bank possess a price-to-earnings ratio of 12. That puts the top bank in favourable value territory at the time of this writing. Moreover, Royal Bank offers a quarterly dividend of $1.08 per share. That represents a 3.2% yield.

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