



## Bank Stocks Look Ready to Rise in 2022

### Description

Heading into 2022, bank stocks look ready for major gains. With their combination of low multiples, high dividend yields, and modest growth, they are the perfect equities to thrive in an overheated market.

This year, tech stocks have reached extreme heights, thanks to a combination of strong earnings growth and internet hype. It has been an incredible run. But as the recent selloff in hype stocks showed, what goes up must go down. There has never been a better time than now for investors to diversify their portfolios away from tech and toward more modestly valued equities.

Bank stocks are the perfect candidates for such a rotation, as they are extremely cheap and set to benefit from widely anticipated interest rate hikes. In this article, I'll explore why I'm increasing my exposure to bank stocks ahead of 2022.

### Interest rate hikes

One big thing bank stocks have going for them is the fact that [interest rates in both the U.S. and Canada](#) are set to rise. The Bank of Canada has all but confirmed that interest rates will be rising in 2022, and the Federal Reserve is thinking the same way.

This is good news for banks like the **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Banks like TD can potentially make money when interest rates rise. With higher interest rates come higher profit margins on loans. Both deposit and loan interest rates rise when central banks hike their interest rates, but the effect on loans tends to be predominant. So there is the potential for higher profits with higher interest rates.

This isn't *guaranteed* to be the case. As the Federal Reserve of St. Louis points out, there have been situations where [interest rates declined and bank margins went](#) up. However, two of the situations described were during economic crises where, prior to the interest rate cuts, many loans were going into default. It appears that during normal economic conditions, bank margins correlate positively with interest rates. For example, in a recent earnings release, **Bank of America** directly attributed its

decline in revenue to low-interest rates.

## Economic recovery from COVID-19

Another factor that banks have going in their favour is the economic recovery from COVID-19. The COVID-19 pandemic caused havoc for banks in 2020, thanks to an increase in risk factors that required them to raise PCLs. Earnings declined at all major banks. In some cases (e.g., Bank of America) revenue declined as well. For the most part, though, it was the higher PCLs that caused the earnings to decline.

Since 2020, the pandemic-related risk factors have significantly reduced. More people are working, the price of oil is rising, and the housing market is booming. The level of mortgage debt is a concern, especially with the rate hikes soon to come. But for the most part, the macro situation looks favourable to banks. So, I'm increasing my exposure to banks in 2021 and 2022—particularly banks like TD that are geographically diversified.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

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