



Why Royal Bank of Canada Stock Rose 30% in 2021

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is trying to retain its crown as Canada's largest public company this year. While tech and growth stocks falter, Royal Bank stock is up a whopping 30% over the course of 2021. The outlook for 2022 is encouraging as well.

Here's why this banking giant is outperforming and why the trend could continue for the next 12 months.

Canada's banking boom

The financialization of Canada's economy has benefitted its banking sector more than any other. Over the past decade, consumers have borrowed more money than ever before. This was mostly to finance the purchase of houses that have been in a never-ending bull market. But capital markets and credit card borrowing have been steadily rising, too.

All this means companies like Royal Bank have seen their top lines explode. In 2021, the economic recovery helped the bottom line, too. The bank's earnings jumped 41% in its most recent quarter. Double-digit growth has been consistent throughout the year.

Meanwhile, the Office of Superintendent of Financial Institutions lifted restrictions on the [sector's dividend policies](#). With the cap eliminated, all major banks raised their dividends and buybacks in 2021. Royal Bank announced an 11% boost to its dividend and a \$5.68 billion buyback program. Unsurprisingly, Royal Bank stock surged on the news.

Rising interest rates

Interest rates are pivotal for banks. In fact, interest rates are to banks what the price of crude oil is to drillers. In 2022, it's nearly certain that interest rates are about to rise. That's good for the bottom line in the banking sector.

Higher interest rates expand the net interest margin for banks. In other words, banks can increase the rate they charge borrowers. That means higher earnings and broader dividends. This factor may be the reason why Royal Bank stock has outperformed recently. If interest rates meet expectations, the surge could continue.

Royal Bank stock valuation

Despite the bull run, Royal Bank stock is still relatively attractive. The stock trades at a price-to-earnings ratio of 12.4. That's an earnings yield of 8%! Much higher than any piece of real estate you can invest in. It also offers a dividend yield of 3.5%, which is likely to be higher by the end of the year.

Put simply, Royal Bank stock could be the least-risky investment opportunity of 2022.

Bottom line

Canada's banks are in a remarkably strong position right now. They've enjoyed a credit boom for decades. Now, they're one of the few industries that actually benefit from rising interest rates in 2022.

Royal Bank stock has been surging on this optimism. Canada's largest bank is still trading at fair value. Meanwhile, its earnings and dividends are set to rise sharply throughout the year. This could be a safe haven for cautious investors in 2022. Keep an eye on it.

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