# Rate-Hike Fallout? A Big 6 Bank Stock to Own Today

## Description

The TSX's financial stocks, led by Canada's Big Six banks, continue to perform below par in 2022. Although the sector is the second-best performer after energy (+19.09%), the year-to-date gain is only 6.94%. For the individual stocks, none of them has gains of more than 12% thus far.



Nigel D'Souza, a financial analyst at Veritas Investment Research, recently downgraded all the Big Bank stocks except one. The reason for the cut is the eventual drag from higher interest rates. He also warns of an approaching inflection point where economic and credit risks related to rising rates could outweigh benefits.

While D'Souza also brought down his price target for the **Bank of Montreal** (TSX:BMO)(NYSE:BMO), he recommends a buy rating. At $150.78, BMO investors enjoy an 11.74% year-to-date gain. Only **CIBC** (+11.88%) is the industry peer with a higher gain.

## Slower economic growth`

According to the Veritas analyst, higher interest rates will boost the net interest margins of banks. He refers to the difference between interest on loans and the interest they pay on deposits. However, D'Souza believes higher rates will lead to slower economic growth. It might also create renewed risk for the lenders' loan books.

The Bank of Canada did not raise its benchmark rate on January 26, 2022, but said a hike cycle is forthcoming to curb rising inflation. D'Souza adds that based on Bloomberg data, most investors have priced in a minimum of five rate hikes from the BoC in the Canada and the Feds in the U.S.

D'Souza said, "We expect market sentiment to shift over the coming months as investors look past the benefit of higher net interest income." He argues that the possibility of slowing economic growth and elevated credit risk in a rising rate environment is high.

## Positive outlook

Darko Mihelic, from **RBC** Capital Markets, has a different view. In early January 2022, he said fundamentals and attractive valuations underpin his positive outlook for the Big Banks. Mihelic expects loan growth, continued improvement in credit quality, and fully loaded capital levels to support his view.

Mihelic anticipates net interest margins to stabilize in the first half of fiscal 2022 year and rise in the second half. He estimates 5.3% average core earnings per share growth in the current fiscal year and 9.4% in fiscal 2023. His profit expectations are likewise higher for the banks but no so much for the **Bank of Nova Scotia**.

## Dividend pioneer

I can't contest D'Souza's buy rating for BMO because Canada's fourth-largest bank is the dividend pioneer. The $97.74 billion bank started paying dividends in 1829, or 193 years ago. In the most recent earnings season, BMO announced a 25% dividend hike. It was the most significant percentage hike among the Big Six banks.



Management also plans to buy back 3.5% of BMO shares, worth $3 billion. The bank made a big move with the purchase of the Bank of the West, a **BNP Paribas** subsidiary. BMO becomes a contender in the rich California area with 200 additional branches from the acquisition.

## Inflation protection

With BMO's dividend track record, it's like receiving pension-like income. If you invest today, the dividend yield is 3.53%.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

**PP NOTIFY USER**

1. cliew
2. jguest

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**
2025/08/17
**Date Created**
2022/02/12
**Author**
cliew