



## Rate Hikes Could Stall Dividend Growth of Big Banks in Fiscal 2022

### Description

Canada's Big Six banks concluded 2021 with a dividend bonanza. Income investors welcomed the 15.5% average dividend hike and expect a repeat of the dividend parade in fiscal 2022 due to higher interest rates. The Bank of Canada didn't increase its benchmark rate in January 2022, although the first of multiple increases could happen in March 2022.

The inevitable rate hike is a tailwind for banks because their net interest margins will rise again. However, [multiple increases](#) could have some drawbacks. Paul Holden from **CIBC** Capital Markets said adjusted earnings per share could fall sequentially by an average of 1.6%. He estimates year-over-year growth to be a modest 3.3%.

Like other economists, Holden sees around six rate hikes through 2023. While the Big Six banks maintain robust capital levels, not all stocks will increase their [dividends](#) later this year. If you were to invest in the sector today, Holden recommends the **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

### Logical choice

Canada's second-largest lender is a logical choice because of its massive exposure and solid footprint in the United States. TD doesn't pay the highest dividend (3.35%) in the banking sector, but dividend safety takes precedence over yield in an inflationary environment or [possible recession](#).

Besides the 164-year dividend track record, the \$193.83 billion bank was the only company that reported top and bottom-line growths in the 2008 financial crisis. **Barclays** also picks TD over its industry peers, citing its U.S. loan book expansion and strong capital position.

The multinational universal bank from London said, "TD has the greatest leverage to rising rates out of the group." Barclays adds, "TD's exposure to the U.S. is strong and should benefit from the sweep deposit agreement it has with **Schwab**." In fiscal 2021 (year ended October 31, 2021), TD's net income rose 20.2% to nearly \$14.3 billion versus fiscal 2020.

TD Economics expects two 25 basis point increases before year-end 2022 to follow the first 25 bps increase this year. At \$106.23 per share, the bank stock is up 10.52% year-to-date.

## Strong international business

Holden expects BNS to post 9.1% year-over-year growth, the highest among the Big Six banks. The edge of Canada's third-largest bank is its international exposure, particularly the emerging Latin America markets. In fiscal 2021, its international banking segment reported adjusted earnings of \$1.8 billion, a 62% increase versus fiscal 2020. The jump was due to strong commercial and secured lending loan growth.

According to Brian Porter, BNS' president and CEO, the \$111.68 billion bank already exceeded its medium-term financial targets after fiscal 2021. He adds that because of the resiliency of its diversified business during the pandemic, BNS is well-positioned to achieve its full earnings power in fiscal 2022.

While total revenue declined 0.3% in fiscal 2021 versus fiscal 2020, BNS' net income surged 45.3% to \$9.95 billion. Now is the time to pick up the bank stock while the price is below \$100. The share price is \$91.87, while the 4.53% dividend yield is the highest among the Big Six banks.

## Dividend growth

Holden said the bullish sentiment on banks will return in the second half of 2022. The most recent dividend hikes for TD and BNS were 13% and 11%, respectively. Both could raise their payouts once more by year-end.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BNS (Bank Of Nova Scotia)
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