



TFSA Investors: 2 Big Bank Stocks to Own Before the Peak of Inflation

Description

Economists now expect the Bank of Canada (BoC) would be more aggressive when it starts the [rate-hike cycle](#) next month. The inflation reading of 5.1% in January 2022 was the highest since 2014. However, no one can't say how high the rate would reach. Based on data from [tradingeconomics.com](#), the all-time high is 21.6%, which was recorded in June 1920.

The feds can't be behind the curve, so the rates must increase soon, according to Andrew Kelvin, chief Canada strategist at **TD Securities**. Economists surveyed by **Reuters** expect the first hike on March 2, 2022, to be 25 basis points. None of the 25 poll respondents believe it won't be higher.

BoC Deputy Governor Timothy Lane admitted that inflation risk is more persistent than forecast. He gave an assurance before that the central bank can be forceful to tackle it. Meanwhile, Canadians using their Tax-Free Savings Account (TFSA) to [create passive income](#) should be proactive and act swiftly.

Rising inflation erodes purchasing power, or sometimes it feels like losing money. If you're holding [dividend stocks](#) in your TFSA, two big bank stocks are ideal anchors right now. **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) and **National Bank of Canada** ([TSX:NA](#)) reported stellar financial results in Q1 fiscal 2022.

Full throttle

CIBC ran on full throttle to start the fiscal year 2022, as all major divisions reported gains from a year ago. In the quarter ended January 31, 2022, total revenue and net income rose 10.9% and 14.7% versus Q1 fiscal 2021. Its Canadian Commercial Banking & Wealth Management division had the most significant year-over-year percentage increase (31%) in net income.

Canada's fifth-largest bank saw its residential mortgage book balance jump 13% to \$257.1 billion compared to the same quarter in fiscal 2021. Barclays Capital Analyst John Aiken, an analyst at **Barclays** Capital, said, "We believe that [CIBC's] results should receive a warm reception from the market and support its relative valuation multiple today."

The bank stock advanced 5.1% to \$163.61 per share after presenting its quarterly results. If you invest today, the dividend yield is 3.94%. Market analysts forecast an 11.2% upside potential (\$182) in one year.

Solid income growth

All business segments of National Bank reported top- and bottom-line growth in Q1 fiscal 2022 versus Q1 fiscal 2022. Net income rose 22.5% year over year to \$932 million. The Financial Markets division reported a 20% net income growth — the highest among the four core businesses.

Its president and CEO, Laurent Ferreira, said, "Solid revenue growth helped the National Bank of Canada achieve a high return on equity (21.7%) in the first quarter." At \$102.78 per share, the trailing one-year price return is 33.55%. The \$34.73 billion bank (sixth-largest lender) pays a 3.39% dividend. Market analysts' 12-month average price target is \$118 (+14.8%).

Ensure steady passive income

Speculations regarding the initial rate hike by the central bank will end tomorrow. However, the inflation story won't go away, as it will impact consumer spending and borrowing. Thus, TFSA investors need to ensure steady passive-income streams.

Whether it's CIBC or National Bank, the dividends should be safe and sustainable. The big banks' payout ratios are 41.92% and 31.3%, respectively.

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3. TSX:NA (National Bank of Canada)

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