
2 Undervalued Bank Stocks to Beat the Inflation Rate in Canada

## Description

Bank stocks are a great way to keep your wealth ahead of inflation. While their dividends may or may not offset the rate of inflation over the near term, shares look to offer a stellar risk/reward at this juncture. Further, the Bank of Canada (BoC) has already begun the process of raising rates. The U.S. Federal Reserve is likely to follow suit.



With the ongoing crisis in Ukraine, though, the real question is just how much flexibility central banks have regarding their tightening cycle. I'd argue that banks are well-positioned to rally independently of how fast rates rise. The fact of the matter is rates are headed higher, and they could end much higher over the next three to five years. What does that mean for the big banks? Higher net interest margin expansion potential. If rates don't impact the strength of the economy (I don't think rate hikes will happen if they'll send us into a 1970s style recession), the banks could be in an enviable spot. Higher rates and surging loan growth are a perfect combination for the broader banking scene.

Indeed, the banks have not looked this good in years. And that's why I'm a big fan of owning them at the core of a TFSA for fighting the high inflation rate in Canada that could remain in the 5%-6% range for another year or two in spite of higher interest rates. So, why not be on the right side of rate hikes if you're not already?

Personally, I don't think investors can do wrong with any bank stock at current valuations. The best bargain today, though, I think is **TD Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal** (TSX:BMO)( NYSE:BMO). It's no coincidence that both have sizeable exposure in the U.S. market.

# TD Bank

TD Bank stock recently fell into a correction from peak to trough alongside the broader markets. This plunge came shortly after the firm had announced its acquisition of First Horizon. The deal did not come cheap, but I think it will pay off over the long run. Indeed, the acquisition will give TD desirable exposure to the U.S. southeast. At US$13.4 billion, though, investors are a bit worried. With some of the best managers out there, though, I do not doubt the deal will end up anything short of an outstanding success. CEO Bharat Masrani is a brilliant man, and he doesn't do deals unless there's a lot of value to be had for the work to be put in.

At writing, TD is in a rut, and it's a buy before investors wake up to the reality that TD's margins could be on a magnificent ascent over the next five years. TD is a dividend-growth king that's well-equipped to march higher.

## Bank of Montreal

Bank of Montreal also made a big splash south of the border with its acquisition of Bank of the West. Indeed, the deal seems to rhyme with the one TD made. With brilliant managers also running the show and the likelihood of a much more prosperous environment for banks, it's hard not to love BMO here. It did incredibly well in 2021 and is likely to continue proving to investors why it's worth a premium multiple. In time, I think a premium is on the way. For now, investors can enjoy deep value alongside a fast-growing dividend.

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