1st Time Investors: Top TSX Bank Stocks to Buy in April 2022

Description

The **S&P/TSX Composite Index** has outperformed the **S&P 500** by a wide margin this year. Canadian stocks at large have been up almost 4%, while their U.S. counterparts have lost 3.7% so far. The reason for the outperformance is obvious, given the prior's large weighting in energy stocks. Apart from energy, the Canadian index also has significant exposure to the financials sector, which has also contributed to the outperformance.

Stocks that outperform during rising inflation

Inflation in Canada reached 5.7% in February, a three decade high. While higher inflation stokes interest rates, bank stocks play well during inflationary periods because higher rates boost banks' interest margins, ultimately improving their profitability.

So, the current setting places bank investors on an ideal footing. The Bank of Canada recently started its tightening cycle, and this could just be the beginning. Inflation is way higher than the bank's target rate of 2%. So, we may get to see more rate hikes at an accelerated pace.

Canadian banks saw a massive recovery in the last few years after the pandemic. Reversals of loan loss provisions notably increased their profits in the last few quarters. While higher interest rates might calm real estate to some extent, banks will likely see some other growth drivers like credit cards or wealth management segments.

Canadian bank stocks will likely see more upside from current levels, mainly driven by earnings growth prospects and appealing valuations.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) is the country's biggest bank by market cap and customer base.

It reported a net income of $16 billion in the last 12 months, representing a growth of 36% year over year. Driven by a faster-than-expected recovery from the pandemic, RY sports a solid balance sheet that's flush with cash.

It recently expanded its wealth management business by acquiring UK-based **Brewin Dolphin** for US$2.1 billion.

With rising rates and economic re-openings, Royal Bank could see sustained stable earnings growth in the long term. Its long dividend history shows its stability with 152 years of consecutive payments. It currently yields 3.5%, in line with its peers.

Toronto-Dominion Bank

Canada's second-biggest bank by market cap, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is another great proxy to bet on the broader Canadian economy. Its large presence south of the border and scale make it a strong bet for long-term investors.

The Canadian retail segment contributes 57%, wholesale contributes 11%, and U.S. retail banking makes up 26% of TD's total earnings. Investment in **Charles Schwab** contributes 6% of its earnings.

TD Bank grew its earnings at a 9% compound annual growth rate in the last 10 years, higher than peer Canadian banks.

Strong mortgage lending and growth in capital market trading could continue making higher contributions to its bottom line. The economic recovery will likely seep into its earnings growth in the next few years, making it an attractive bet for total return-seeking investors.

Bottomline

These Canadian bank stocks offer decent return prospects, driven by their stable earnings profiles and dividends. In addition, they seem reasonably valued at the moment, underlining an appealing growth potential for long-term investors.

CATEGORY

1. Bank Stocks
2. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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Author
vinitkularni20