Bank of Montreal (TSX:BMO): 1 of My Favourite Stocks to Buy as the Fed Hikes Rates

Description

The Fed is doing the best it can to combat inflation without triggering an economic downturn that could induce a stock market crash. Indeed, the Fed has smart people running the show. But Chairman Jay Powell has an incredibly difficult task on his hands, as he hits the "rate-hike" button, which is essentially pulling the brakes on economic growth.

Only time will tell if stocks can stomach the impact of anywhere from eight to nine rate hikes. If 10 or more rate hikes are needed to temper inflation, growth investors could continue to feel the pressure on their high-multiple plays.

2022 has been turbulent: Don't panic. Stay disciplined and hunt for value

That's why I think it's a tad too soon to go bottom fishing in the most beaten-up areas of growth. Instead, I like value stocks, which I believe could shine for the next three or even four years. For now, rates are expected to hit 2.5-2.75%. Should inflation show no signs of backing down, with U.S. inflation at a multi-decade high, just under the 8% level, count me as unsurprised if 3% rates or higher are needed.

A recession may be unavoidable if too many rate hikes are required to stop the horrific price increases. Indeed, there are other tools that the federal government can leverage to combat inflation, such as cost controls. Still, such measures are likely only to make a bad situation so much worse. Indeed, ripping the band-aid off with rate hikes and a (hopefully) short-lived recession seems to be what the Fed is aiming for at this juncture.

Bank of Montreal: Value and growth

Bank of Montreal (TSX:BMO)(NYSE:BMO) is a low-multiple stock that could benefit from the higher rates to come. Of course, the stock will fall alongside everything else if a hard-landing recession is unavoidable. Still, I think investors should give the Fed the benefit of the doubt. If they're fully focused on dampening the blow to engineer a soft landing, it's quite possible that it can pull the punches of rate hikes that will be on tap for the next 18 months.

A soft landing that could help the economy bounce back quicker than expected would be a big positive for the banks. Higher rates and higher loan growth are essentially a best-case scenario for a bank like BMO. With Bank of the West in the books, I believe some above-average growth could be in the cards through the next decade. Even if there's a recession, it's not curtains for a well-run bank like BMO. It's been through tough times before, rising out stronger than before.

BMO: Recession or not, it's a great long-term hold

Remember, Canada's banks are among the most robust in the world. And they won't go down without a fight. For BMO, it'll be busy bringing out the best in its U.S.-focused acquisition of Bank of the West. Good times or bad, BMO is ready to march forward over the long haul. At 11 times trailing earnings, the stock seems incredibly undervalued.

CATEGORY

1. Bank Stocks
2. 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. joefrenette
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date

2025/08/24
Date Created
2022/04/11
Author
joefrenette