ALERT: Here's Why I'm Buying Bank Stocks After the Rate Hike

Description

On the morning of April 13, The Bank of Canada (BoC) moved to raise its key interest rate by 50 basis points to 1%. This represented the highest one-go rate increase in over two decades. Moreover, the BoC has warned that further interest rate hikes are on the way. Canadian investors should prepare accordingly. Today, I want to discuss why some of the top Canadian bank stocks could be a great investment in this climate. Let's jump in.

Why the interest rate hike could give a boost to Canada's top financial institutions

Back in November 2021, I'd discussed the prospects of rate tightening in the months ahead. At the time, policymakers were already telegraphing their intensions. Canada's inflation rate has increased in the months that have followed, which has applied more pressure on the BoC governors.

In that article, I'd suggested that an exchange-traded fund (ETF) that focused on high-yield Canadian bank stocks was a solid hold. Indeed, rising interest rates should greatly bolster profitability for the top domestic financial institutions. Canadian household debt has ballooned over the past decade. Interest rate hikes mean that banks will be able to gobble up greater margins on the loans they have dished out.

The top Canadian bank stock looks like an attractive buy right now

Royal Bank (TSX:RY)(NYSE:RY) is the first bank stock I'd look to target in the middle of April. This is the top financial institution in Canada and one of the most influential around the world. Shares of Royal Bank have been mostly flat in 2022 as of close on April 14. The bank stock is still up 15% in the year-over-year period.

The bank unveiled its first-quarter 2022 earnings on February 24. Royal Bank reported double-digit residential mortgage growth in its Personal & Commercial Banking segment. It also delivered strong growth in retail and wholesale loans. Royal Bank's extensive credit book should see a nice boost to its profit margins in response to rising rates.

Two more bank stocks to target in this environment

Back in September 2021, I'd looked at some of the top discounted bank stocks. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) remains a very solid target for Canadians who are on the hunt for value in this space. Moreover, its credit book should also receive a boost due to the interest rate hike. This bank stock is up 1.5% so far this year.

Like its peers, Bank of Montreal benefited from stronger volume growth and a big dip in provisions set aside for credit losses. Shares of BMO currently possess a very solid price-to-earnings ratio of 11. It offers a quarterly dividend of $1.33 per share. That represents a 3.7% yield.

National Bank (TSX:NA) is the third bank stock I'd look to snag after the interest rate hike. This top Quebec-based bank often flies under the radar. Shares of this bank stock have dropped 5.1% so far in 2022.

In Q1 2022, National Bank delivered net income growth of 22% year over year to $932 million. Like its peers, this bank benefited from strong revenue growth. Total revenues jumped 9% on the back of improved loan and deposit results. That means National Bank is well suited to see a spike in profit margins after this rate hike.

This bank stock possesses a very attractive P/E ratio of 9.9. National Bank offers a quarterly dividend of $0.87 per share, representing a 3.7% yield.

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