



2 Top Bank Stocks to Buy in Canada

Description

Canada's Big Six banks face another acid test in 2022 but under different circumstances. Coronavirus, the headwind in 2020, prompted the lenders to raise their provision for credit losses (PCLs) to unprecedented levels. A repeat of the same action looms because of macro factors like soaring inflation and the Russia-Ukraine war.

JPMorgan Chase has set aside US\$902 million in reserves for Q2 2022 after reporting a 42% drop in profits in Q1 2022 versus the same quarter in 2021. The top U.S. bank sees significant geopolitical and economic challenges ahead. According to its CEO, Jamie Dimon, a recession is absolutely possible. JPMorgan wants to cover its losses in case borrowers default.

Gabriel Dechaine, an analyst for **National Bank of Canada** Financial Markets, believes Canadian banks have the same [downside risk](#) heading into Q2 fiscal 2022 earnings. However, there are tailwinds, particularly for two big banks in expansion modes.

If you want to stay invested in the banking sector, the top bank stocks today are **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Dechaine has sector perform ratings for the two [blue-chip assets](#), which is equivalent to a hold rating.

Long-term hold

BMO is Canada's oldest and fourth-largest financial institution by market capitalization. The \$96.64 billion bank looks forward to the mega-merger with Bank of the West. Management awaits regulatory approval for its proposed acquisition of the BNP Paribas subsidiary in the United States.

According to Darryl White, CEO of BMO Financial Group, the US\$16.3 billion transaction is part of or the next step in BMO's growth strategy. More importantly, the acquisition paves the way for contiguous market extension. It should accelerate BMO's commercial banking expansion across the border. Also, it provides a highly competitive scaled entry into the affluent market in California.

BMO is TSX's dividend pioneer whose dividend track record is approaching 200 years. The 3.74%

dividend yield is [safe and sustainable](#), given the low 34.75% payout ratio. If you purchase this big bank stock today (\$143.24 per share), you can hold it forever or throughout your retirement years.

Strategic fit and growth story

TD isn't done growing its footprint in the U.S. and will soon be the sixth-largest bank in America. After Q2 fiscal 2021 (quarter ended April 30, 2021), the \$170.46 billion bank had an excess common equity tier one (CET1) capital of \$14.6 billion. Because the anticipated tidal wave of losses during the pandemic didn't materialize, TD had a huge cash stockpile for M&As.

TD will acquire First Horizon in the southeastern United States. The all-cash transaction to acquire Memphis-based and premier bank is worth US\$13.4 billion. Bharat Masrani, TD Group president and CEO, said that the premier regional bank is a terrific strategic fit for TD.

For Bryan Jordan, First Horizon's president and CEO, the proposed business combination is a true growth story. As of this writing, TD trades at \$93.99 per share — a good entry point. The dividend offer is a decent 3.79%. TD's dividend track record of 165 years should also give you the confidence to invest.

Strong profits

Dechaine said Canadian banks could follow the lead of JPMorgan and bump up its PCLs again. However, despite his murky outlook for credit quality, profits will remain strong.

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1. Bank Stocks
2. Investing

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
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