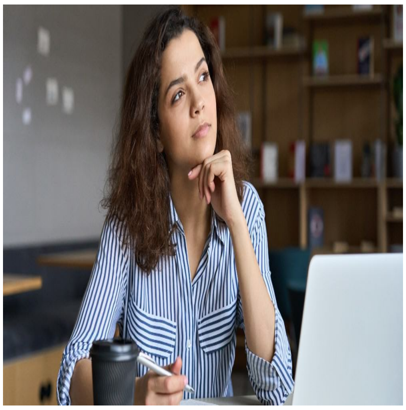

Scotiabank Stock: A TFSA Top Pick for Prudent Canadian Investors

Description

Scotiabank (TSX:BNS)(NYSE:BNS) stock has been incredibly resilient over the past few years, with COVID headwinds weighing heavily across the globe. As Canada's most internationally focused bank, with exposure in the higher-growth Latin American region, the recovery from COVID has been quite rough versus more domestically focused banks. Still, with a modest multiple at around $85 and change per share, I think Canadian investors have a lot of reason to give the well-run bank the benefit of the doubt amid profound macro uncertainties.

An intriguing Big Six bank stock that may be the best bargain right now

Emerging markets exposure can be a source of greater long-term growth, but it can be a wilder ride. Still, for many young investors, I think that punching one's ticket at a low point could prove wise. At writing, shares of BNS trade at a discount versus the Big Six peer group. The stock goes for just 10.7 times trailing earnings. That's cheap for the calibre of business you're getting, even if we're due for an economic slowdown at the hands of fast and furious interest rate hikes.

The Canadian banks are the best in their breed, and Scotiabank is no exception. With a mere 1.5 times book multiple, I think that the risk/reward scenario hasn't looked this good in quite a while. The stock is in the midst of a 10% correction from peak to trough. Undoubtedly, investors have been taking a hit to the chin with the first round of earnings flowing in. Last Friday was quite painful for markets, with BNS dipping 1.6% alongside almost everything else in the TSX Index.

Though rate hikes are a double-edged sword for the banks, I think that doubt over the U.S. Federal Reserve's ability to create a soft landing is unwarranted. If anything, they deserve the benefit of the doubt. While the soft landing may not be completely soft (volatility ought to be expected), I think that for a cheap bank like Scotiabank, the potential upside could have the potential to be sizeable. Scotiabank is not only cheap, but it's poised to benefit gradually from the rate increases.

Further, if the world economy isn't due for a recession or depression, as some bearish pundits may think, the path of least resistance seems to be up for a quality blue-chip like Scotiabank.

Rate hikes loom: Don't be afraid

Scotiabank's VP and Head of its Capital Markets and Economics division Derek Holt thinks there's a "solid case" for the Bank of Canada to raise by as much as 100 bps at once. I think Holt is right on the money. Rates are going up. But getting the pain over with in one go may be the best way to go, since it'll have a greater effect at pulling inflation lower. Indeed, a stronger dose of medicine may be needed to get rid of inflation. Fortunately, the Canadian economy is so strong that I don't think a recession is realistic. Not with commodity prices at today's highs.

Though BNS stock will fall alongside everything else in a hawkish surprise, I'd look to be a buyer of quality dividend payers on the dip. If anything, young investors should hope for more pain in a name like Scotiabank. The lower it goes, the higher the yield, and the more long-term upside it has!

Today, the 4.7% yield is bountiful. But if waters get rougher, look for the 5% level to be hit. That's when I'd really look to pounce on Scotiabank before it even has a chance to bounce!

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