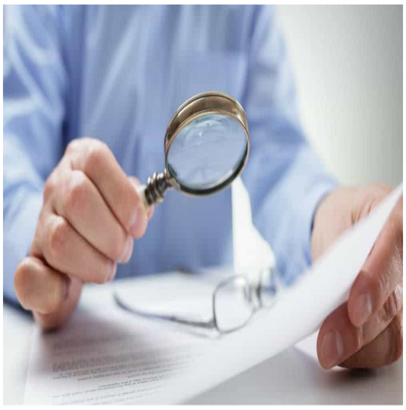

Why the Big Six Banks Are Still Down in 2022

Description

The Big Six banks have long been touted as a safe haven in the stock market — especially during volatile times. We saw that fall back in March 2020, with the Big Six banks all returning to pre-pandemic levels within a year.

Yet in 2022, a shift happened. Rate hikes came in, inflation rose, and now analysts worry a recession is in our midst — one that should have happened already if not for the pandemic. So, are the Big Six banks still safe? Or are they to remain down in 2022 and even fall further?

What happened?

During the first part of 2022, the Big Six banks have come down an average of 12% since peak prices in mid-February. They consist of **Toronto-Dominion Bank**, **Royal Bank of Canada**, **Canadian Imperial Bank of Commerce**, **Bank of Nova Scotia**, **Bank of Montreal**, and **National Bank**.

It's quite the list, and you've likely got your money stored with one of these banks already. This is why even if you don't invest in their stocks, this matters to you. So, why the fall? As I mentioned, rate hikes and inflation certainly had something to do with it. But so did the Ukraine crisis and housing market fears. Furthermore, that rate hikes in the United States could further hurt Big Six bank investment.

Now, the U.S. banks fared significantly worse during the first quarter compared to the Canadian Big Six banks. However, it's feared that Canadian banks are merely to be hit later rather than not at all. And it's that fear which is keeping investors from buying the banks — even at these low prices.

Valuable or not?

The Big Six banks look to be filled with value based on fundamentals right now. Each trades at around 10 times earnings, well within value territory, with price-to-book ratios below two. But as analysts have seen, price-to-book ratios in particular fall by around 40% from pre-recession heights before a recession hits.

While the Big Six banks have yet to fall that far, these ratios have come down quite a bit. That could mean there is more of a fall to come to reach that significant decline we see during a recession. And that depressed period could last around 14 months, on average, analysts have seen. That would add another year to the current situation.

So, even with shares down by around 12% for the Big Six banks, some predict falls of a further 30% or more to hit full recession levels.

What should investors do?

I'm not going to sit here and tell you that technically the Big Six banks aren't valuable. They certainly are — especially if you're looking for long-term holds for decades and not just a few years.

However, should a recession hit with rising inflation and interest rates, you may need your money sooner than you thought. Should that happen, it looks like the Big Six banks are set to fall before they start climbing. And that climb *could* be another year away.

That all being said, Canadian Big Six banks were slow to release credit reserves during the pandemic. And that's a good thing. They'll need it for a recession, providing them with a huge capital buffer during a downturn. And that's why they continue to outperform U.S. banks today.

So, that outperformance should continue to happen. Does it mean share prices won't fall? No. But it could mean a faster recovery for shareholders.

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alegatewolfe