2 Canadian Bank Stocks I'd Buy Right Now

Description

Canadian bank stocks were not spared during the broader market selloff. With the U.S. Federal Reserve ready and willing to move forward with another several 50-bps rate hikes, the recession odds seem to be creeping higher. Undoubtedly, neither the U.S. Fed nor the Bank of Canada want to induce another recession. But with inflation at risk of surpassing 9-10% in the states and 7-8% in Canada, it seems that a few hits to the chin of economic growth are worth taking if it means curbing recent prices increases.

The big banks are a beneficiary of higher rates, and they've been on a robust rally out of the depths of the 2020 coronavirus recession. Still, their rallies have come to a crashing halt, and there are reasons to believe that any negative impact on economic growth could weigh heavily on loan growth moving forward. Indeed, subtle improvements to net interest margins (NIMs) are less meaningful if it means we're to fall into a recession.

While I wouldn't rule out a recession in the states as a result of rapid-fire interest rate hikes, I think one is off the table in Canada. If anything, the Canadian economy is running hot — perhaps too hot. Thanks in part to strength in commodity prices, the Canadian economy could easily continue powering higher, as the Bank of Canada contemplates anything from a mere 25-bps hike to a full 100-bps hike.

Personally, I think the big banks are well positioned to thrive as rate rise and the economy holds its own. Consider **TD Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO), two Canadian bank stocks that are looking too cheap to ignore here.

TD Bank

TD Bank is one of the best-run banks out there. With the First Horizons acquisition in the books, the bank will be busy as it looks to bring out the best in its latest deal. Undoubtedly, there was concern about the price paid for the deal. While TD may have gotten a better price, I do not think it paid all too rich of a multiple. If anything, they paid a reasonable multiple. And the potential synergies from the deal may be discounted by investors at this juncture.

In any case, TD stock looks too cheap to ignore after falling at the hands of the broader market pullback. Shares trade at 11.6 times trailing earnings alongside a 3.92% dividend yield. Though there will be turbulence over the next two years, as the effects of rate hikes are finally felt, I think the risk/reward scenario is way too attractive at current levels, even if we're bound to fall into a bear market.

Bank of Montreal

Bank of Montreal is another well-run Canadian bank that walked away with a solid acquisition over the past year. With Bank of the West, BMO suddenly became one of the best ways to play Canadian and U.S. banking. Though the retail and wealth management businesses are robust, it's the commercial banking exposure that could really fare well if rate hikes don't cause the recession that everything seems to think we're in for.

Even if we're due for a recession in the states, it may be a softer landing that most bears expect. And with much exposure to the oil and gas space, which should continue to be strong with sky-high commodity prices, BMO seems best positioned across the Big Six to grow its earnings over the next five years. For that reason, I'm a huge bull on BMO, as shares slip in this broader market correction.

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