Annoyed With Inflation? Then Buy These 2 Bank Stocks

**Description**

Seven of the **TSX's** 11 primary sectors, led by utilities and communications, staved off a potential entry into bear market territory last week. Canada's lead equities benchmark (-4.83%) has fared better year to date (YTD) than its U.S. counterparts, the Dow Jones (-13.97%), S&P 500 (-18.14%), and the NASDAQ (-27.42%).



Still, global stock markets are standing on shaky ground due to fears of a recession. Investors are annoyed, particularly with runaway inflation. Commodity stocks like energy and mining have outperformed in 2022, but risk-averse investors want time-tested assets in their portfolios during inflationary periods.

## Bedrock of stability

The financial sector is down 8.18% year to date, although it houses Big Bank stocks. Canada's banking sector is a bedrock of stability, and you can't go wrong owning shares of the top two lenders. Also, the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD) are the first- and second-largest publicly listed companies on the TSX.

RBC's market cap stands at $180.26 billion, while it's $167.03 billion for TD. Both have paid dividends for more than a century, with track records of 152 and 165 years, respectively. If you're a dividend investor, you can buy either stock and hold it forever.

## Diversified business model with scale

RBC trades at $127.75 per share (-3.58% YTD) and pays a decent 3.77% dividend. The blue-chip company's diversified business model has scale plus market-leading franchises. Besides being a dominant force in Canada, RBC is also the 11th-largest investment bank in the world.

Paul Holden, an analyst at **CIBC** Capital Markets, recommends a buy (outperform) rating for RBC. His favourable endorsement stems from earnings diversification, capital levels, and lower relative credit risk. Credit Suisse analyst, Joo Ho Kim, has the same rating for RBC and sees a 19.7% upside to $159 in 12 months.

Kim said the tailwinds for Canadian banks are continued loan growth, signs of an improving macroeconomic outlook, and discipline around expenses and capital deployment. He forecasts the banks to grow its earnings per share by mid-single-digit earnings-per-share growth for fiscal years 2022 and 2023.

Liquidity-wise, RBC had a surplus of $70 billion (124% average LCR) at the end of Q1 fiscal 2022 (quarter ended January 31, 20220). Management hasn't gone full blast with its expansion, but is acquiring Brewin Dolphin to give RBC's wealth management business the number three position in the U.K. and Ireland.

## Expanding U.S. footprint

TD is a no-brainer buy like RBC. The share price ($92.10) is relatively cheap, while the dividend (3.87%) is rock steady due to the low 40.9% payout ratio. Note that the bank stock's total return in 49.47 years is 41,526.95% (12.97% CAGR).

Canada's top-tier bank is expanding its footprint across the border. It will use $13.4 billion of its excess capital to purchase First Horizon in the United States. Management said that the Memphis-based acquisition target is an extremely well-managed premier regional bank with a strong presence in highly attractive U.S. southeast markets.



Once the deal obtains regulatory approvals, it will make TD the sixth-largest bank in America. The transaction should close by Q1 fiscal 2023.

## Pay for quality

The elevated uncertainty today requires intelligent moves. If you want assets that can counter inflation, pay for quality. RBC and TD are must-own stocks in good and bad times.

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