3 Canadian Bank Stocks That Could Outperform as Rates Rise

Description

Two main avenues that lead to profit generation for banks are non-interest income and interest income. Bank stocks tend to benefit from rising interest rates. This is primarily because increasing interest rates boost interest income due to greater yield spreads on instruments like residential and commercial mortgages.

That said, of the many bank stocks on the TSX, **Bank of Montreal** (TSX:BMO)(NYSE:BMO), **Laurentian Bank** (TSX:LB), **Canadian Western Bank** (TSX:CWB) are three of the key lenders I'm watching right now. Here's why.

Top bank stocks: Bank of Montreal

Headquartered in Toronto, BMO is a diversified financial services provider that operates four business segments: U.S. P&C banking, Canadian personal and commercial banking, capital markets and wealth management. The operations of BMO are primarily based in Canada, along with some portion in the United States.

BMO has shown consistent margins over time, and a positive correlation with interest rates over the long term. Currently, the company pays out a dividend of 4.1% on the basis of its strong earnings. With one of the best yields among its large-cap peers, there's a lot to like about how BMO is positioned.

The company expects to grow its earnings by around 3.5% this year. That's not something investors may necessarily want to write home about. But in an environment where earnings could be on the decline for many sectors, BMO stock provides a safe and defensive yield worth considering right now.

Laurentian Bank

Laurentian Bank is a more regional lender, focused on the Quebec and Eastern Canadian market. This bank's strong commercial lending division has been a source of strength and weakness in the past. Thus, this is one of the more cyclical banks to consider in this environment.

Much of this higher-risk nature is reflected in Laurentian Bank's relatively high yield of 4.8%. That said, I think those bullish on relatively strong corporate performance in the years to come may want to consider this bank stock on dips moving forward.

A post-pandemic winner, Laurentian Bank stock has come down considerably from its peak. Accordingly, those looking for exposure now have an interesting entry point to consider. In this rising rate environment, LB stock could be an intriguing place to hide for investors seeking upside in smaller-cap lenders.

Canadian Western Bank

Last but not least, we have Canadian Western Bank. Like Laurentian Bank, CWB is a regional lender in Canada. That said, this company is focused on the western Canadian market, Laurentian Bank has been thrown out with the bathwater, during previous energy declines.

Investors who like organizations that have revenue and also earn profits will find Canadian Western Bank an interesting play to look at.

However, investors may note that the energy sector is roaring back. Those bullish on financials as well as energy thus get a double-dip opportunity with Laurentian Bank right now.

This company's earnings surged more than 20% on a year-over-year basis in Q1, on the back of such positive catalysts. This company's higher dividend yield of 5.1% is reflected in the company's regional status as well as its relatively higher-risk profile. However, for those looking to get aggressive on the banking sector, this is one bank that I think could thrive in this environment.

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2. TSX:BMO (Bank Of Montreal)
3. TSX:CWB (Canadian Western Bank)
4. TSX:LB (Laurentian Bank of Canada)

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