RRSP Investors: Here's the Best Canadian Bank Stock for Your Buck

Description

The Canadian banks have taken endless hits to the chin over the past month, following the U.S. banks into bear market territory. Undoubtedly, the prospect of an economic slowdown does not bode well for Canada's top financials. Though higher rates will pad their net interest margins moving forward, the banks don't tend to fare well during times of severe economic hardship. Even the best-run banks tend to fall under considerable amounts of selling pressure in the face of a recession.

These days, recession chatter is all we've heard about on TV. Various pundits may think a 2023 recession will come down to a coin toss. Indeed, not great odds for RRSP investors who were scarred by the Great Recession of 2008, when bank stocks shed well over half of their value over a pretty concise timespan. While the 2008 recession really took a big bite out of the Big Six banking giants, many experts believe that the recession (or modest slowdown) is unlikely to be as severe.

Indeed, the 2008 recession was the worst since the Great Depression. While a 2022 or 2023 recession could see unemployment rates increase substantially, it's arguable that such a recession is unlikely to be as horrific, given consumer savings are still quite swollen. Further, there's still some pent-up demand for various goods. Unfortunately, it's the supply side that seems to be giving the impression of weak demand for certain classes of goods.

Canadian recession on the horizon? Not so fast!

With Canada's employment numbers still incredibly robust, there seem to be few, if any, signs that a recession is coming. Things may very well turn on a dime, but until they do, I think RRSP investors are erring on the side of bearishness.

A recession is defined as two consecutive quarters of negative GDP growth. As recessionary storm clouds come and go, I think the banks could be the first to see their all-time highs. Valuations in the Big Six are getting too depressed, and yields are starting to become to most swollen they've been since their rise out of the 2020 stock market crash.

As always, there's a best bank for your buck. And at this juncture, I favour **Bank of Montreal** (
TSX:BMO

)(NYSE:BMO) because of its intriguing growth profile and its dirt-cheap multiple.

Bank of Montreal: Today's best bank for your buck?

Bank of Montreal fell over 2.6% on Thursday, as the broader basket of big banks sunk lower. The stock is now down just shy of 21% from its March 2022 all-time high. Indeed, Bank of Montreal investors are worried about the grim outlook for the economy. Loan growth could take a few steps back, and the windfall of higher rates may not be enough to propel Canada's big banks.

At writing, BMO stock trades at 6.7 times trailing earnings. That's close to the cheapest it's been in recent memory. With a 4.6% dividend yield and a strong growth profile, with Bank of the West in the books, I'd look to average down into big blue for those who want more yield for less.

At the end of the day, banks tend to be great buys during times of economic chaos. Brave dip buyers may get slammed over the near term, but they can lock in swollen dividend yields and ride a recovery once the economic tides inevitably turn back in their favour.

BMO's dividend is rock solid, and as it approaches 5% again, I would not hesitate to lock it in.

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Date
2025/07/07

Date Created
2022/06/25
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