Market Selloff: Time to Hold Financial Stocks

Description

The financial sector was the second-best performer after energy in 2021. Its constituents delivered an annualized price return of 31.6% for the year. Canada's primary stock market continued its bull run in 2022 until runaway inflation and recession fears triggered a market selloff.

As of June 24, 2022, the financial stocks underperform versus the broader market at -12.82% versus -10.18%. With the consumer price index surging at the fastest rate since 1983, the Bank of Canada is under pressure to tame inflation and prevent a recession from happening.

The 4.58% decline of the red-hot energy sector in the last five days somehow signals instability. Thus, financial stocks appear more palatable again in the face of massive headwinds. After the pandemic shock of 2020, banks and insurance companies didn't waste time in rewarding investors with dividend increases.

If you're looking for suitable hedges against inflation, **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are excellent prospects. Their dividend payouts should be rock steady, even if the share prices drop due to the negative market sentiment.

Insurance and wealth management solutions

In Q1 2022, Manulife's net income surged 279% to $2.97 billion versus Q1 2021. Also, management saw the Global Wealth & Asset Management net inflows rise 393% year over year to $6.9 billion.

Its president and CEO Roy Gori said, "Our diversified footprint, operational resilience, and proven digital capabilities enabled us to deliver solid results in the first quarter, despite a challenging operating environment caused by the resurgence of COVID-19 and global market volatility."

Performance-wise, the $42.05 billion insurer and financial services company has delivered a respectable 198.70% (11.5% CAGR) in the 10.01 years. If you invest today, MFC trades at $21.92 per share (-6.58% year to date) and pays an attractive 6.02%. Note that the payout ratio is a low 26.18%.

Gori added that the importance of insurance and wealth management solutions is more visible than ever before. He said, “We are encouraged to see signs of stronger customer demand as containment measures relax in some markets. I am confident in our ability to capture this rebound as those markets recover from these temporary disruptions.”

Top-line and market share growth

CIBC, Canada’s fifth-largest lender, pays an attractive 5.08% dividend. The $58 billion is a bedrock of stability like its bigger industry peers. It raised its dividend by 10% in late 2021 then by another 3% after the earnings release for Q2 fiscal 2022. The big bank stock trades at $63.25 or 13.33% lower than its price on year-end 2021. Based on market analysts’ forecasts, CIBC’s upside potential in 12 months is 25%.

According to its CEO Victor Dodig, CIBC posted the second-best revenue and profit increases among Canada’s six largest banks. He said, “Our top-line growth, our market-share growth is at the upper end of the market. So, some people like to take a pause on that, but I’m increasingly seeing more and more investors leaning in and investing in our company.”

Dividend safety

Income investors shouldn’t worry about the safety of dividends. Manulife (26.18%) and CIBC (43.52%) can sustain the attractive yields due to their low payout ratios. You can pick either stock today to lessen the impact of rising inflation on your purchasing power.

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2. Investing

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2. NYSE:MFC (Manulife Financial Corporation)
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