Should You Buy Canadian Bank Stocks After the Recent Correction?

Description

After a massive tech rout, [Canadian bank stocks] are feeling the heat now. Recession fears have weighed on them of late, plunging almost 20% from their respective highs. Notably, the fall could gain steam in the short to medium term, as challenges seem far from over.

Canadian bank stocks fall 20% from the top

This has been a terrible year so far for risky assets. The **TSX Composite Index** has fallen 10%, while the TSX Banking Index, which includes Canada's top eight bank stocks, has dropped 12% so far this year.

Rallying energy prices and supply chain issues due to the war in Europe have mainly been behind the rising inflation this year. As a result, the consumer price index has been close to 8% in Canada — its 40-year high. Notably, many economists have weighed in the possibility of a recession with rapidly rising interest rates and record-high inflation.

Banks will likely be the primary victims in that case. Thus, Canada's biggest **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock has fallen 16%, while the second-biggest bank, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), has dropped 22% from their respective 52-week highs.

Strong balance sheet but the waning macro picture

Canadian banks played well during the pandemic, thanks to their strong balance sheets and the government's direct financial assistance. The loan losses never fully materialized as once feared. Thus, provisions for those losses reversed in the last few quarters, boosting banks' bottom lines.

In addition, housing markets were very strong during the pandemic. The bidding wars were common, even for high-priced real estate. And lower borrowing costs were a major driver for that. However, this time it's a tad different. As interest rates have begun to rise, things have calmed in Canadian housing markets.

Also, as borrowing costs increase, people cut down on spending or defer their big-ticket purchases. So, banks will likely see lower revenue and profit growth as their loan originations slow.

However, Canadian bank stocks like TD and RY look appealing after their recent correction. Undervalued stocks and juicy dividend yields of over 4% make them attractive.

Also, Toronto-Dominion Bank looks relatively well placed among its peers. At the end of Q2 2022, TD Bank had a common equity tier-one (CET 1) ratio close to 15%. RY had it at around 13%. It is a measure that suggests banks' financial cushion to weather severe economic shocks. As well, the CET 1 ratio for these banks is comfortably above the threshold levels and indicates that top Canadian banks could manage the upcoming potential stress.

Bottom line

However, that does not rule out the possibility of further weakness in bank stocks. Runway inflation and steeper rate hikes could make Canadian bank stocks more volatile. So, it does not make sense to go all-in banks stocks just yet. However, if you are looking for a stable passive income and are ready to buy at lower levels as well, it makes sense to jump in now.

CATEGORY

1. Bank Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. metienne
2. vinitkularni20

Category

1. Bank Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/20
Date Created
2022/06/29
Author
vinitkularni20