The Top TSX Bank Stocks for Dividend Lovers in July 2022

Description

The market correction is providing a better opportunity to buy big Canadian bank stocks versus a few months ago. With an increased risk of a recession, the correction may not be over. While there could be more downside coming, it could be a smart move for long-term investors to build positions over the next months.

What could cause a greater selloff is a potential higher provision for credit losses as interest rates rise for personal loans, including mortgages, and commercial loans. However, the CMHC insurance serves as a safety net for the important Canadian housing market. So, investors should not be overly concerned.

In the long run, the big Canadian bank stocks have always survived and thrived under a well-regulated financial system. Should the stocks fall lower, it could mean an attractive buying opportunity. In my spring cleaning, I dug up my notes of a quote from an unknown book that fits well into today's investment opportunity in bank stocks:

> "Value investing believes no single factor tends to lower one's risk more than buying a company at a favourable price."

Here are some top **TSX** bank stocks for dividend lovers to consider for July and beyond.

BNS stock

Among the Big Six Canadian banks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock offers the biggest yield of close to 5.4%. It provides international exposure, including developing markets, which can potentially deliver higher growth in the long run. However, these markets are also typically riskier. During bad economies, credit losses will likely be higher.

That said, Canada remains BNS's core market that made up 68% of its earnings last fiscal year. Therefore, BNS stock's results are still highly stable. And its yield is also safe. Its sustainable payout ratio is estimated to be approximately 47% this year.

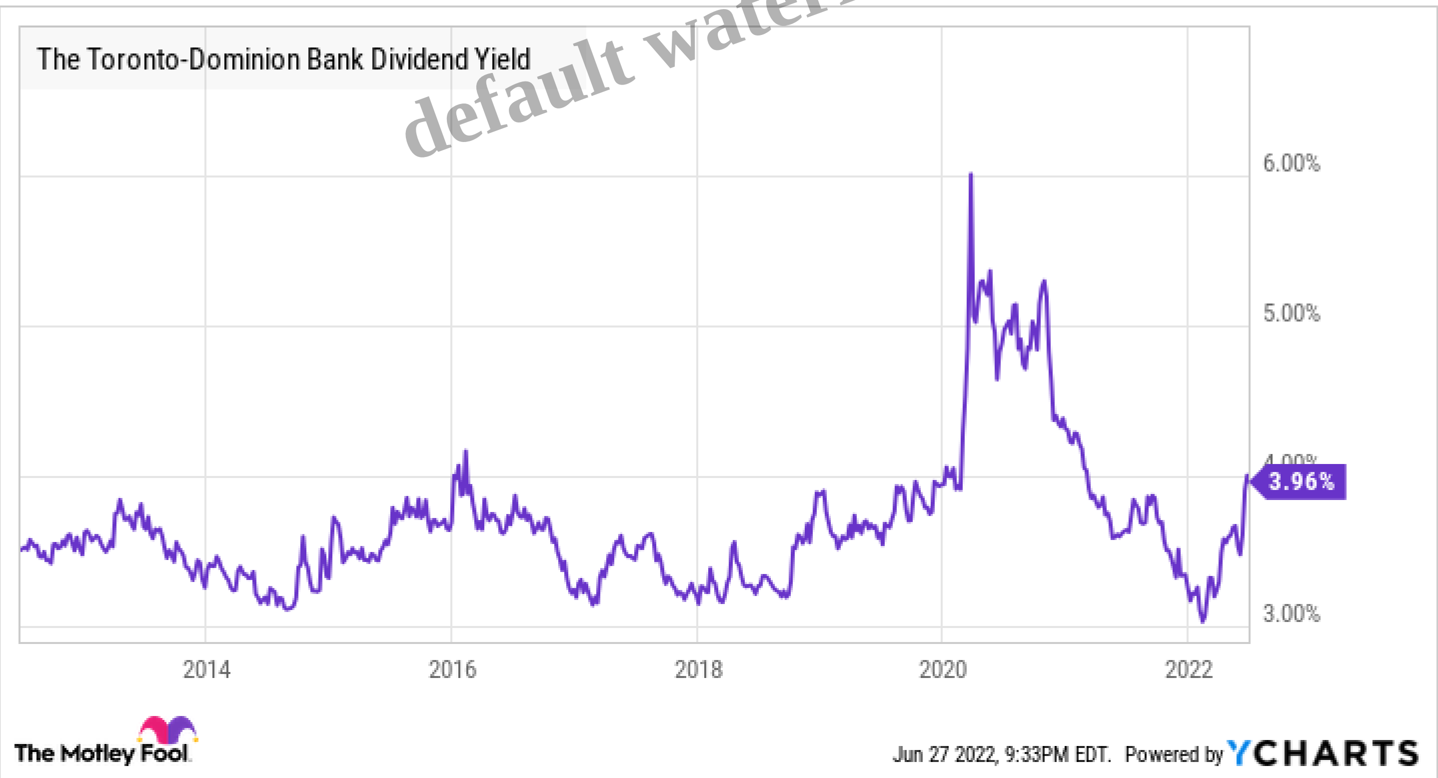
Likely because of its higher-risk international exposure, BNS stock trades at a discount to the industry average. At $76.89 per share at writing, it trades at a discount of about 20% from its normal valuation, which is not a bad place to start easing in for investors seeking passive income and long-term price appreciation.

TD Bank stock

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock's retail-focused business is perceived to be lower risk, although the bank stock will still be pressured on the higher-risk of a recession in North America. High household debt and rising interest rates don't bode well for the bank.

Its lower risk is indicated by the market commanding a higher multiple of about 10.3 times earnings right now versus BNS stock's nine times. As well, TD stock's yield is also lower at 4.2%. However, comparing this yield to the bank's historical yield range shows that it's at the high end of the spectrum in a normal market.

Just note that when the macro environment turns south (or is perceived to turn south), it can quickly jump to yields of 5-6%, as it did during the onset of the COVID-19 pandemic.



TD Dividend Yield data by YCharts

In any case, in the current highly uncertain economic environment where we're plagued with high inflation and high interest rates, it would be smart for investors to take their time entering positions instead of buying in a lump sum.

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2. NYSE:TD (The Toronto-Dominion Bank)
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