2 Oversold Dividend Stocks to Buy for Passive Income

**Description**

Inflation in Canada is running hot. Various pundits expect CPI numbers could break the 8% mark, even as the Bank of Canada starts getting more aggressive. A 100-bps (full point) rate hike is the largest in decades. More may be in the cards, as Canada's central bank looks to do away with pesky price increases for good. Warren Buffett put it best: inflation swindles just about everybody.



As the Bank of Canada continues tightening, investors should look to oversold passive-income stocks that may have too much "recession risk" baked in. It's these such names that could really correct to the upside if inflation can be eliminated without propelling the broader economy into a recession.

With such robust employment, it's hard to imagine a severe recession happening in 2022 or 2023. It's really hard for many firms to fill positions these days. As companies look to automate various tasks, disinflationary forces may very well drag inflation down before the rates surpass the 3% mark. Such a scenario would be incredibly bullish for the sold-off tech stocks, especially the speculative ones that have shed more than three-quarters of their value.

Until inflation shows signs of rolling over, though, such high-growth plays may continue to be too volatile to handle. That's why I'd much rather reach for the passive-income stocks that can help investors weather what could be the latter innings of this bear market.

Consider shares of **Canadian Western Bank** (TSX:CWB) and **CIBC** (TSX:CM)(NYSE:CM), two underrated Canadian bank stocks that haven't been this cheap since the depths of 2020.

# Passive-income stock #1: Canadian Western Bank

Canadian Western Bank has now lost more than 40% of its value since peaking out back in 2021. Shares trade at 6.48 times trailing earnings, with a 5.1% dividend yield. Undoubtedly, the regional bank (regional to western Canada) deserves to trade at a hefty discount to its bigger brothers in the Big Six. The million-dollar question is, how much of a discount?

Coming off a brutal second quarter, many CWB investors are rushing to the exits in anticipation of rising provisions. Its margins are under a little bit of pressure, but net interest margins (NIMs) are bound to surge higher over coming quarters, as the bank feels the effect of rate hikes. Further, management is taking steps to improve upon recent idiosyncratic issues that have been a drag on margins.

I think the recent selling is overdone. Investors now have a rare opportunity to snag shares at 0.7 times book value.

## Passive-income stock #2: CIBC

CIBC is a Big Six bank that's also under considerable pressure, down around 27% from its all-time high. The number-five bank does not get much respect when there's chatter of a recession. The stock got decimated in the dot-com bust of 2000 and the Great Financial Crisis. CIBC's exposure to Canadian mortgages does not put investors at ease. Though CIBC will see its margins expand from rate hikes, such hikes could weigh on CIBC's mortgage book. Undoubtedly, rates are a double-edged sword for a firm like CIBC.

Though higher rates will be costlier for those with a mortgage, I think it's a tad far-fetched to think that a repeat of 2008 is in the cards for 2023. CIBC is stress-tested and is well-positioned to deal with a mild slowdown in the Canadian housing market.



At 8.5 times trailing earnings, with a 5.5% yield, CIBC stock looks incredibly cheap ahead of a slowdown that may be less malignant than many housing bears expect.

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