Royal Bank (TSX:RY) Stock: Where I'd Invest $500 in the TSX Right Now

Description

New investors' stomachs have been put to the test this year, with the S&P 500 plunging as low as 24% before posting a very quick melt-up rally, recovering around half of the ground lost before running out of steam. With the U.S. Federal Reserve's battle against inflation, it's quite tough to evaluate the broader basket of securities. Ultimately, rates dictate just how undervalued or overvalued stocks are at this juncture. Of course, there are individual names that are cheaper than the batch. And it's these such names that can hold their own, even as rates slowly but steadily creep higher with every Fed meeting.

At this juncture, many investors are looking for any subtle hint of dovishness from the Fed. If the Fed continues to stay in hawk mode until it gets its way with inflation, we're likely to see more of the same over the next 18 months — wobbly markets, with the tech-heavy Nasdaq 100 leading the downward charge.

Rates rattle stock markets … again

Profits in the future are worth some amount less with every uptick in interest rates. The emphasis on profitable companies hasn't been this pronounced in a while. If there are no profits to be had, it's really hard to justify hanging onto just a promise or a growth story.

While nobody knows where rates will ultimately settle once inflation is brought down to 2-3%, I think investors should stick with resilient stocks that have solid balance sheets and rising earnings trajectories.

Sure, a coming recession could weigh heavily on earnings results. That said, the coming recession may prove mild, leaving less to fear than fear itself, as corporate earnings hit a bit of a speed bump.

At this juncture, I'm a huge fan of the banks and discretionary firms. Consider **Royal Bank of Canada** (TSX:RY)(NYSE:RY), one cheap stock that I think is too discounted after a post-earnings flop.

Royal Bank of Canada

It's been a rough start to the third quarter for the big Canadian banks. Royal Bank fell 2.6% on Wednesday following the release of some hideous bottom-line numbers. Adjusted earnings per share (EPS) came in at $2.55 — a disappointment versus the consensus estimate of $2.66.

Provisions for credit losses (PCLs) are back on the table, with $340 million set aside in anticipation of soured loans. Undoubtedly, the coming economic slowdown could bring forth even more PCLs and other earnings headwinds. In any case, I continue to stand by the RY stock, as it tends to be one of the first to bounce back from PCL-driven slumps.

At $123 and change per share, shares of RY go for 10.8 times trailing price to earnings (P/E) and 1.9 times price to book (P/B), both well above industry averages of 10.2 and 1.7, respectively. Royal is a premier banking giant, but there are visible dents in the armour. In any case, I still view Royal as worthy of a premier price tag for its robust capital markets business.

With a 4.2% dividend yield, Royal Bank is a Dividend Aristocrat that's perfect for contrarians willing to endure short-term pain for a shot at market-beating, long-term gains.

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