



# Bank of Montreal Stock: Should You Buy Now or Wait?

## Description

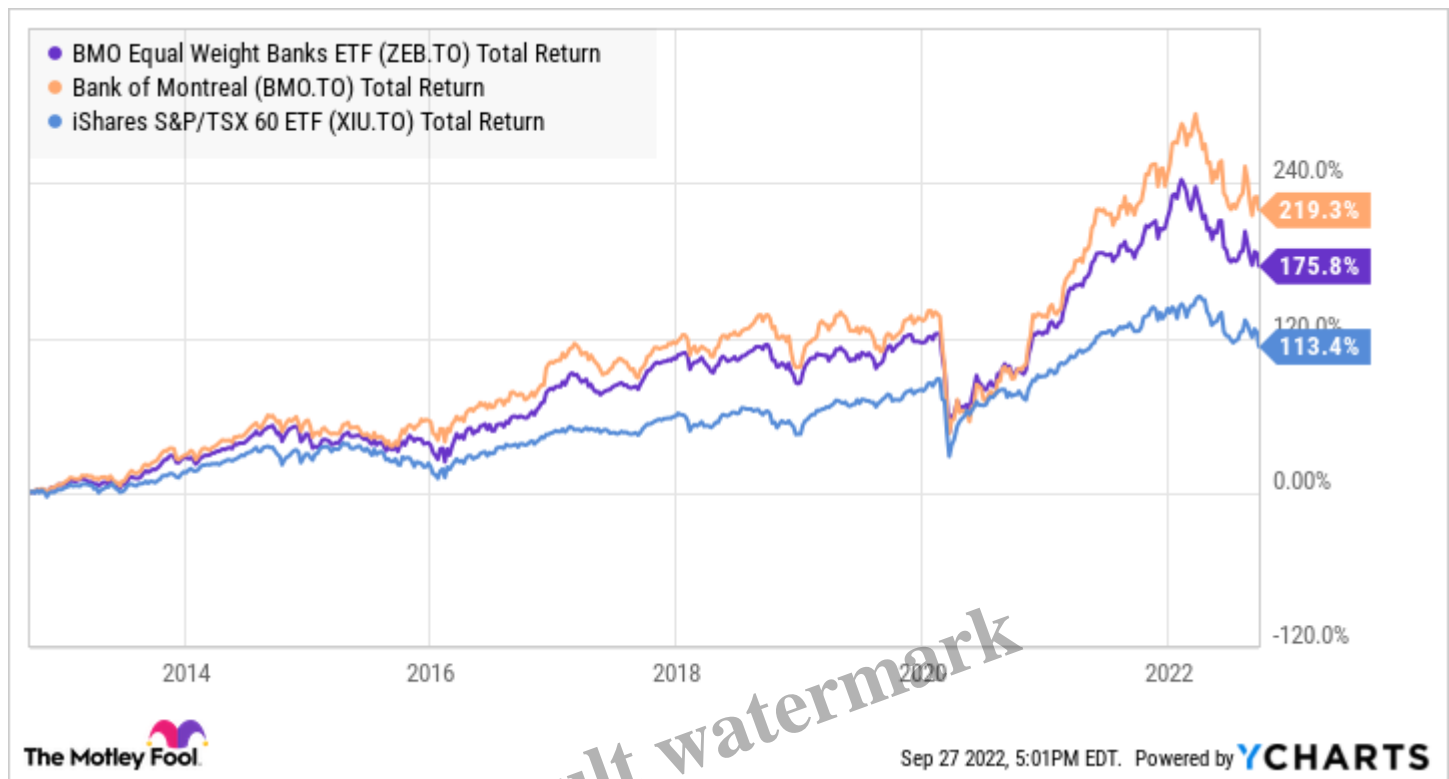
The Canadian banking sector, as a whole, has been under pressure. It actually moves in tandem with the Canadian stock market. Here's the year-to-date price action of the banking sector (using **BMO Equal Weight Banks Index ETF** as a proxy), the Canadian stock market (using **iShares S&P/TSX 60 Index ETF** as a proxy), and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock, which is our focus for this article.



ZEB, XIU, and BMO data by YCharts

Longer-term charts show a similar correlation between the three. However, taking into account dividend returns, the banking sector has been a better investment than the market because the sector

tends to provide a higher dividend yield. For example, the recent yield of the BMO Equal Weight Banks Index ETF was 4.1% versus iShares S&P/TSX 60 Index ETF's 3.3%.



ZEB, XIU, and BMO Total Return Level data by YCharts

The above is the 10-year total return chart. You'll notice that BMO stock has outperformed both the banking sector and the broad Canadian stock market.

## What's pressuring BMO stock?

Like the other [bank stocks](#), BMO stock has been pressured by macro factors. Rising interest rates have weighed on the valuation of the stocks, as cost of capital is rising and business earnings growth is expected to slow down. As well, consumers will be more careful with their spending because of high inflation and the fact that it's more costly to borrow — particularly when wages can't keep up with inflation. In other words, it'll be harder to get consumers and businesses to borrow.

Moreover, the market is concerned about a potential hard landing in a recession triggered by interest rates rising too fast in order to cool down the high inflation. No matter what, in this highly uncertain environment, businesses and consumers will spend less. The financial markets have also been in a gloomy state. So, BMO's near-term results will be weighed down.

In past recessions, BMO's earnings dropped in the double digits. A similar earnings decline will likely occur should we experience a recessionary scenario.

## Is the bank stock cheap enough to buy?

At \$120.67 per share at writing, BMO stock is down almost 22% from its 52-week and all-time high. It

now trades at about nine times earnings, which is a decent discount of approximately 20% from its long-term normal valuation.

It also offers a nice and safe dividend yield of 4.6%. Can the stock head lower in the near term? Inflation is high and interest rates are expected to continue to rise. So, there's a good chance BMO stock would be lower over the next months. However, the sure path to making money in the stock market is to buy great stocks over time when they go on sale.

Right now, BMO stock is relatively cheap. So, it could make sense to buy a partial position for the long haul. Five years (or later) from now, you'd probably be glad you did.

## The macro environment is gloomy, but BMO is a solid dividend stock

During highly uncertain economic times, BMO stock and its Canadian bank peers may be restricted from increasing their dividends and making stock repurchases by the Office of the Superintendent of Financial Institutions. This regulation is present to ensure the soundness of the Canadian financial system. This is also why in the past two recessions, you would notice BMO stock and its peers only maintained (and not increase) their quarterly dividends for an extended period.

The [dividend stock](#) continues to have the capacity to protect its dividend. Therefore, interested investors looking for reliable long-term returns can consider building a position over time in the bank stock.

If you already own a position, it'd be more prudent to take your time in adding more shares. Surely, there are other [top stocks](#) that are also becoming more attractive in this environment.

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