



TD and CIBC Stock: 2 Top Banks to Buy for Big Yields

Description

The top Canadian bank stocks are in a bit of a rut right now, with **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) and **CIBC** ([TSX:CM](#))([NYSE:CM](#)) off around 19% and 26% from their highs, respectively. Higher rates are good news for net interest margins of the big financials. That said, such a good thing can also bring on something that's a whole lot worse: a recession.

Banks aren't recession-resilient, even the best-run banks with the richest capital ratios. The big banks can try their best to ride out a storm, but provisions for credit losses (PCLs) are tough to avoid when economic growth slips. Though shares of TD Bank and CIBC are attempting to stage a comeback (or bottoming-out process) after a fall into [bear market territory](#), it's difficult to gauge what the next move will be. For a long-term investor, it shouldn't matter which trajectory is next as we inch closer to a recession year.

Recessions aren't necessarily curtains for the banks

Though recessions tend to imply drops of around 50%, I'd argue that the bank stock downside from this current bear market may be far less pronounced. Why? Many pundits see the coming recession as mild. Others see it as being short-lived. A major reason why is that central banks (most notably the U.S. Federal Reserve) are going to play things by ear going into the new year. Believe it or not, most of the interest rate hikes are probably already in the books. Looking ahead, the Federal Reserve can afford to watch the data and react accordingly.

Earlier this week, economic data showed some dents in the armour. That means central banks may not need to be as hawkish moving forward. While dovish surprises shouldn't be expected, at the very least, central banks can pause if the economy tumbles a tad faster than expected.

At the end of the day, some very smart people are doing their best to land the plane softly on the tarmac. With that in mind, a 2008 crisis-level crash seems less likely in the cards this time around.

TD Bank

TD Bank is one of my favourite bank stocks right now. In prior pieces, I noted that TD may have walked away with bargains after scooping up Cowen and First Horizons amid broader market downside. Indeed, TD is incredibly well-managed, with a risk-mitigation mentality. Though erring on the side of caution could mean forgoing huge gains in good times, TD's strategy tends to maximize risk-adjusted reward, making the bank a terrific buy for all seasons and an even better bounce-back bet.

With a recession and provision storm brewing, TD stock has already viciously sold off. The stock boasts a 4.1% dividend yield and a modest 1.6 times price-to-book (P/B) multiple (1.5 times is the industry average). TD may not be the [cheapest](#) bank stock, but it's the most exciting, given its new pick-ups and solid fundamentals.

CIBC

CIBC is a banking underdog that may scare off certain folks because of its mortgage exposure. The real estate scene is looking a bit fragile these days, but which asset class isn't? CIBC's large mortgage book may be a huge risk pocket, but don't expect the stock to be in for a repeat of 2008. CIBC is a much better and better-capitalized bank than it was more than a decade ago.

Still, the valuation suggests CIBC's still a more at-risk bank in the face of a recession. At 8.8 times trailing price-to-earnings (P/E) and 1.3 times P/B, the stock is cheaper than its peer group. I think the discount is a tad too much. With a bountiful 5.4% yield, CIBC is an intriguing value option if you've got a passive income bias.

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Author

joefrenette

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