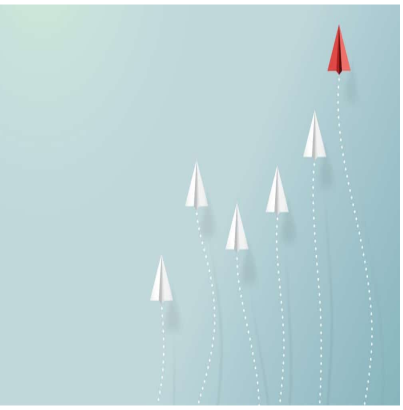

BMO or BNS Stock: Which is the Best Bank for Your Buck as BoC Hikes Rates?

Description

Savvy investors can feel outright depressed in times like these. Many portfolios have taken huge hits to the chin in the form of double-digit percentage losses over the past year. Even seemingly safe investments (think the big banks) aren't immune to market-wide selling pressure. Top-tier blue chips like **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) have felt the heat of the macro headwinds.

With the Bank of Canada acknowledging the escalating recession risks, new investors may think it's prudent to steer clear of stocks.

Why continue to stand in front of a freight train going at full speed when you could step out of the way? Though such an analogy may make sense for market newcomers, it's actually an inaccurate comparison that could put investors at risk of missing out on a recovery.

Now, chasing rebounds and catching falling knives can be dangerous. But when it comes to solid blue-chip bank stocks with histories of keeping dividends intact, I'd argue that it makes sense to embrace market volatility by nibbling on the way down.

Bank of Montreal

Bank of Montreal stock is down just north of 17%. That's pretty much in line with the **TSX Index**, meaning that BMO stock is a relative outperformer as far as the Big Six Bank stocks are concerned. Looking ahead, BMO faces the same challenges as its banking peers. Loan losses could mount in a recession and even the subtle tailwind of higher interest rates (which translates into higher net interest margins on deposits) may not be enough to steady the tides.

In any case, BMO is a dirt-cheap stock at 7.55 times trailing price-to-earnings (P/E) and 1.3 times price-to-book (P/B), both of which are well below historical averages. With a 4.4% dividend yield, BMO stock is also a bountiful play that will compensate investors for their patience through what could be another tough year.

Scotiabank

Scotiabank has felt far more pain than its bigger brothers in the banking scene, currently down around 30% from all-time highs. Its international exposure has been a sore spot, with the world on the cusp of an economic downturn. Undoubtedly, greater risk can mean a better shot at outsized gains over the long run, especially for investors who get in at depressed multiples.

At 7.87 times trailing P/E and 1.1 times P/B, BNS stock is close to the cheapest it's been in more than two years. With so much recession risk baked in, I'd argue that BNS stock is one of the better deals in the banking space for investors seeking a name to hold for the next 10 years.

It's hard to tell where BNS and the banking basket are headed next. Regardless, BNS's huge 6.27% yield should act as an incentive to go against the grain while most others run for the hills. Sometimes, the calm before the storm is worse than the actual storm itself.

Better bank stock to buy right now?

In the face of recent weakness, BMO and BNS stocks can both be great additions to a diversified portfolio. I'd not be against nibbling on both. If I had to choose one, though, it'd have to be BMO. This bank will walk away from the past year of pain in a better spot, as it looks to effectively integrate its acquisition, Bank of the West, which will beef up its U.S. growth profile.

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