



Dividend Investors: Oil Is Out. Banks Are in!

Description

Energy stocks were the most in-favour sector in the first half of this year. The TSX Energy Index (the index of oil stocks on the Toronto Stock Exchange) rallied 68%, thanks to the soaring oil prices that were observed in the first half. Below, you can see the stock chart for **Suncor Energy** ([TSX:SU](#)), which has done very well this year.

On the whole, it doesn't look too bad for the year overall. Suncor and other oil stocks are up, and the rest of the market is down. What's not to love?

It's true that Suncor is outperforming this year. It's outperforming by a lot: in the period when Suncor delivered the return shown above, the broader stock markets fell. However, if you look carefully at the chart, you will see that the rally peaked in June. Those who got in Suncor late are currently down. It could well be that the best days of the oil rally are over. Fortunately, there is another high-dividend sector that's just starting to get moving.

Banking

[Bank stocks](#) surged last week after a string of earnings releases from the big U.S. banks. The U.S. banks all beat earnings estimates, and they rallied after their releases came out. The best of the bunch was **Bank of America** ([NYSE:BAC](#)), which rallied 6% on its earnings date. In its earnings release, BAC showed that it increased its revenue by 8% and its net interest income (NII) by 24%. Earnings declined, but that was only due to [on-paper accounting factors](#) that are unique to banks. Overall, Bank of America thrived in the third quarter.

That fact apparently got people very interested in banking stocks. In this same period, when U.S. banks were rising, Canadian banks were also rising, albeit to a lesser extent. For example, at the time this article was written, **Toronto-Dominion Bank** was up 7% over a five-day period. TD is a Canadian bank — it does a lot of business in the U.S., but the majority of it is in Canada. The fact that TD rallied when there was no news in the period other than U.S. banks putting out earnings is telling. Investors are getting more optimistic toward bank stocks.

How long will this last?

It's one thing to note that bank stocks are doing well right now but quite another to say that the rally will last. How many times this year have we seen tech stocks attempt to take off only to fall again later? There is a possibility that this banking stock rally will be short lived. However, my opinion is that it will probably last. All of the big banks are now posting positive growth in their core lending profits. Overall, earnings are, in some cases, declining due to weakness in segments like investment banking but not enough to ruin the thesis on bank stocks.

Today, banks are trading at only nine or 10 times earnings, yet they have been putting out some of the best earnings seen in any sector this year. Overall, I'd say banking is a sector worth getting into.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BAC (Bank of America)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:SU (Suncor Energy Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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