



## 2 Cheap Bank Stocks to Buy Now and Never Sell

### Description

Canadian [bank stocks](#) are down considerably in 2022. Investors are now wondering if the pullback is overdone and, if so, which top [TSX](#) banks are good to buy now for a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolio.

### Bank stock outlook

The Bank of Canada and the U.S. Federal Reserves are raising interest rates at a rapid pace to try to get inflation under control. In September, inflation came in at 6.9% in Canada and 8.2% in the United States. The central banks want to see price growth drop back to 2%. This requires slowing down the economy, and hiking interest rates is the tool they are using to achieve the goal.

Rising interest rates tend to be positive for banks, as long as the gains in net interest margins outweigh the surge in loan losses. Markets are concerned that the combination of persistently high inflation with a large jump in borrowing costs will hit household budgets harder than the central banks anticipate and plunge the Canadian and U.S. economies into severe recessions.

In Canada, investors worry that house prices could crash to the point where thousands of property owners owe more than the home or condo is worth. If there is a wave of mortgage defaults, the banks could get stuck holding properties they have to sell and take a loss on the money owed. In this situation, bank stocks would likely take an additional hit.

For the moment, economists widely predict a short and mild recession in Canada and the United States next year. They cite historically high savings levels and a strong employment market as reasons to think consumers will be able to ride out the higher interest rates until inflation is reduced to target levels.

Based on this scenario, bank stocks now look [undervalued](#) for buy-and-hold investors seeking passive income and total returns.

## TD Bank

**TD** ([TSX:TD](#)) trades for \$88 per share at the time of writing compared to \$109 at the 2022 high. The board increased the dividend by 13% for fiscal 2022, and investors should see another decent jump for next year, even with the current economic headwinds.

TD is using its large cash hoard to make two U.S. acquisitions to drive future growth. The purchase of **First Horizon** for US\$13.4 billion will add US\$55 billion in loans, US\$75 billion in deposits, and more than 400 branches to the existing American operations and make TD a top-six bank in the United States. TD is also increasing the size of its investment banking group with the US\$1.3 billion purchase of **Cowen**.

TD expects its common equity tier-one (CET1) ratio to be above 11% after the deals close, so the bank will remain well capitalized to ride out any economic turmoil.

TD stock provides a 4% yield.

## Bank of Montreal

**Bank of Montreal** ([TSX:BMO](#)) trades for \$128 per share at the time of writing compared to more than \$150 earlier this year. Investors who buy the stock at the current level can get a 4.3% dividend yield.

Bank of Montreal is also betting big on the United States. The company is buying **Bank of the West** for US\$16.3 billion. The deal will add more than 500 branches and will give Bank of Montreal a foothold in the California market. Bank of Montreal has a strong track record of acquisitions in the U.S. market going back to the early 1980s.

The board increased the dividend by 25% late last year and by another 4.5% so far in fiscal 2022. Investors have received a dividend annually since 1829.

## The bottom line on top bank stocks to buy now

TD and Bank of Montreal appear oversold right now and pay attractive dividends that should continue to grow. If you have some cash to put to work, these stocks deserve to be on your radar.

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