2 Bank Stocks to Load Up on in a Recession

Description

Inflation and recession are the only two constants in this market. With an upcoming recession all but set to take place next year, many investors were worried about their money, as this bearish trend continues. Accordingly, for many, bank stocks may not necessarily be a safe place to stash some cash.

The idea behind trimming financials right now is that this is a sector that can feel the effects of a recession more than most. Banking is a cyclical industry, and while better net interest margins may be seen on the horizon, economic weakness could mean less lending and, therefore, less profitability. For investors, it's a tough time to buy most bank stocks right now.

That said, there are two Canadian banks I think are worth buying here. Let's dive into why these stocks are worth a look right now.

Top bank stocks to buy: TD Bank

Toronto-Dominion Bank (TSX:TD) is one of the biggest banks in Canada, established in 1955. TD has always been extremely rewarding to its investors, no matter what. In a recessionary environment, investors look for stocks with a higher dividend payout, because growth is generally tossed out the window. The great thing is that TD stock provides an excellent dividend for investors looking to be patient in times of stress.

TD rolls out quarterly dividends, excluding special ones, that have always been decent. Keeping that aside, TD also has immense growth potential. On Friday last week, the stock advanced 1.38%, making it a favourable trade.

The bank has strong fundamentals to leverage its growth further. Better growth will also translate into a growing dividend payout to its investors in the long run. Moreover, with the company cutting operational costs and streamlining its business, I think TD is likely to perform better than its competitors over time.

Currently, TD stock trades at around $88 per share, with a dividend yield of more than 4%.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY) is the largest bank in Canada, and the largest company for that matter, based on market cap. This is a mega-cap stock backed by significant cash reserves, with a growth plan the company continues to execute well on. With operations in more than 30 countries outside of Canada, Royal Bank is certainly far from a domestic play on the financials space.

Aside from the company's size, there's a lot to like about its fundamentals. Royal Bank trades at a similar valuation multiple to TD at around 12 times earnings. Historically speaking, this is a relatively fair number, indicating investors continue to hold their RY shares. With a dividend yield of 3.9%, and the size and scale of the company's overall business, this is certainly a bank stock that long-term investors want to hold.

At the time of writing, RY stock trades at around $131 per share. Given the company's $16 billion in earnings for the previous fiscal year, I think its valuation of $183 billion is warranted. Should earnings grow over the coming year, RY stock could be due for a valuation expansion. Thus, I think this is a great option at a decent price for investors to load up on, recession or not.

Bottom line

The bottom line is that both TD and Royal Bank have a track record of delivering profits, even in challenging times. Accordingly, with more pain potentially on the horizon, these are two bank stocks worth considering right now.

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