2 Big Bank Stocks With Unused Pandemic Reserves I'd Buy This Year-End

Description

Investors anticipating a recession next year should not stay away from the market; instead, they should invest for stability. If there's a sector that can weather a potential slowdown in 2023, banking should be it. Big banks, in particular, will prepare for any eventuality, including raising provisions for credit losses (PCLs).

According to Nigel D'Souza, a financial services analyst with Veritas Investment Research, **Toronto-Dominion Bank** (TSX:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM) still carry reserves from the pandemic. Consider investing this year-end in banks that have ample buffers for credit losses.

Show of strength and resiliency

TD's impressive results in the fourth quarter (Q4) of fiscal 2022 should calm investors amid recession fears. In the quarter that ended October 31, 2022, net income rose 76.4% to $6.67 billion versus Q4 fiscal 2021. Bharat Masrani, president and chief executive officer (CEO) of TD Bank Group, said the superb financial performance shows strength and resiliency.

For the full fiscal 2022, net income increased 21.9% year over year to $17.43 billion. Kelvin Tran, TD's chief financial officer, said, "We had record earnings in Canadian personal and commercial banking and a record quarter in the U.S. retail bank." The large deposit base is also advantageous because Canada's second-largest bank gains access to cheaper funds.

Masrani added that TD entered fiscal 2023 from a position of strength due to growing businesses and a powerful purpose-driven brand. Furthermore, the acquisitions of Cowen Inc. (Q1 fiscal 2023) and First Horizon (first half fiscal 2023) are tailwinds and new growth drivers. At $91.32 (-2.1% year to date), TD pays a 4.16% dividend.

Ready for the new realities

CIBC president and CEO Victor Dodig said the $51.2 billion bank delivered a solid financial performance in fiscal 2022 and furthered the strong momentum across the bank through management's execution of its client-focused strategy. He added, "We enter the new fiscal year as a modern, relationship-oriented bank with a strong capital position and focus on growing in key client segments."

While total revenue increased 9% to $21.83 billion versus fiscal 2021, net income declined 3% year over year to $6.24 billion due mainly to higher PCL and expenses plus lower interest margins. CIBC's Canadian Commercial Banking and Wealth Management division had the best performance in the year that ended October 31, 2022, with net income rising 14% to $1.89 billion from a year ago.

Despite the lower net income, the bank increased its quarterly dividend by 2.4%. If you invest today, the stock trades at $58.82 per share (-17.21% year to date) and pays a juicy 5.17% dividend. Dodig anticipates slower global economic growth in 2023, but assures everyone that CIBC is ready to reposition the business and adjust to the new realities.

Management will continue to grow the client franchise and promises to moderate expense growth. Lastly, Dodig asserted that CIBC is well diversified and resilient, and Canada's fifth-largest bank has the proven ability to navigate an uncertain operating environment.

Money in stability

Canadian big banks are the bedrock of stability. TD and CIBC aren't immune from massive market headwinds, but they will not disappoint. Their more than 100-year dividend track records are compelling reasons to buy either big bank stock. You can buy them now, hold them for decades, and never sell them.

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