



Why BNS Stock Fell 26% in 2022

Description

Bank of Nova Scotia ([TSX:BNS](#)) took a big hit in 2022 amid a broad pullback in [bank stocks](#). Contrarian investors with an eye on dividends and total returns are wondering if BNS stock is now [undervalued](#) and good to buy for a retirement portfolio.

Recession fears

Investors initially drove bank stocks higher in 2022 on the hopes that rising interest rates will drive up net interest margins. This makes sense, as the banks tend to benefit from better spreads on what they pay on deposits and the rates at which they lend money out to customers as interest rates increase. That theme remains in place this year after the Bank of Canada aggressively raised rates in 2022 and is expected to at least maintain rates at the current level through 2023.

The downside of higher rates, however, appears to have overpowered the positive investor sentiment that was in place at this time last year. The Bank of Canada is trying to cool off the economy to get inflation under control. Bank investors seem to be of the opinion that the central bank is going to overshoot its goal and drive the economy into a deep recession.

In a worst-case scenario, the jobs market will swing from a position of excess positions to a large jump in unemployment. This would put households that are already struggling with higher prices and soaring loans payments in a situation where they might be forced to default on their mortgages. If a wave of property listings drives down prices to the point where the banks get stuck with homes and condos that are worth less than the mortgage amounts owed, the group could be in for a rough ride.

For the moment, however, the general view of economists is that the Canadian economy will go through a short and mild recession in 2023.

Bank of Nova Scotia's stock might also have come under added pressure last year, as investors worried about the economic risks for the international operations. Bank of Nova Scotia has a large presence in Mexico, Peru, Chile, and Colombia. The four members of the Pacific Alliance trade bloc rely heavily on oil and copper prices for revenue. If a deep global economic downturn occurs and

commodity prices crash, these economies might take a big hit.

Oil and copper prices remain elevated, and demand is expected to be robust in the coming years. The international business delivered solid results in fiscal 2022, extending the rebound from the 2020 slump.

Dividends

Bank of Nova Scotia raised its dividend in 2022. The current quarterly payout of \$1.03 per share provides an annualized yield of 6.2% at the time of writing. The distribution should be safe, even if the economy goes through a deep downturn. Bank of Nova Scotia has increased the dividend in 43 of the past 45 years.

Is BNS stock a buy today?

Fiscal 2022 earnings topped the 2021 results, so the steep decline in the share price looks overdone. In fact, at 8.3 times trailing 12-month earnings BNS stock now appears priced for a financial crisis. That view is probably too negative and likely provides investors with a good opportunity to buy the stock at a cheap price and pick up an attractive dividend yield.

Ongoing volatility should be expected in the coming months, but BNS stock deserves to be on your radar at this level, and you get paid well to wait for the rebound.

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Date

2025/06/27

Date Created

2023/01/04

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