



Bank Stocks Are Down 15% Year to Date: Why I'm Still Bullish

Description

Not even a pandemic could slow the growth of some high-flying Canadian tech stocks this year. The Canadian market may be flat since the beginning of 2020, but we're seeing a surprising amount of tech companies trading at all-time highs today.

The pandemic has dramatically accelerated the digitization of many businesses across the entire globe. As a result, the importance of many tech companies has only skyrocketed over the past eight months.

Companies like **Shopify** and **Lightspeed** have experienced massive increases in demand as brick-and-mortar businesses have quickly tried to create an e-commerce presence during this pandemic. As a result, both stocks have been on absolute tears since the last week of March.

What about bank stocks?

Bank stocks have not only trailed tech stocks throughout this pandemic, but most have even trailed the broader Canadian market as well. With the **S&P/TSX Composite Index** down about 3% on the year, each of the Big Five banks is down 5% or more.

If you're looking to cash in gains within the rest of this year, tech stocks might be of more interest to you. But for long-term Foolish investors looking to own reliable market-beating companies in their portfolio, bank stocks present an interesting opportunity at these prices.

The gradual decrease in interest rates throughout 2020 has caused a lot of short-term pain for bank stocks. Profits will likely take a decent hit for the foreseeable future as interest rates remain low. To add insult to injury, many investors are expecting the rise of interest rates to be a gradual process. It's possible that it will be years before we return to a level where interest rates were at the beginning of this year.

The beauty of being a long-term Foolish investor is that you have the luxury of waiting out short-term economic situations, such as lowered interest rates. Canadians are able to pick up shares today of any of the Big Five banks at [extremely low valuations](#) while we wait for interest rates to rise back up.

I've covered Canada's two largest banks and highlighted why each is on my watch list of stocks to add before the year's end.

Toronto-Dominion Bank

Valued at a market cap of \$110 billion, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is Canada's second-largest bank. The Toronto-headquartered bank is split into three major segments: Canadian Retail, U.S. Retail, and Wholesale Banking.

The bank has had a rough year so far. It's down close to 20% since the beginning of the year. Even over the past 5 years, it's barely keeping up with the market. It's when you start looking at over 10 years that you can see a strong track record of market-beating growth. At a gain of 60%, TD Bank has nearly doubled the Canadian market's returns over the past 10 years.

In addition to market-beating growth, Canadian bank stocks can provide some of the [highest yields](#) you can find on the market today.

TD Bank's dividend pays shareholders an annual payout of \$3.16 per share, which is equal to a dividend of more than 5% at today's stock price.

Royal Bank of Canada

Canada's largest bank, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), is valued at a market cap of \$135 billion. And before Shopify overtook the number one position earlier this year, RBC was not only the largest Bank in Canada but the largest publicly-traded company too.

RBC has been one of the better performing bank stocks year to date. Since the beginning of 2020, the stock is down just 6%, only slightly trailing the broader Canadian market. When looking at a longer time-period, RBC has crushed the returns of the Canadian market, more than doubling it over the past decade.

While RBC might not offer up a yield of 5%, its Dividend Aristocrat status should not be ignored. At an annual payout of \$4.32 per share, the yield is equal to 4.4% at today's stock price.

Foolish bottom line

When there's a list of tech stocks trading at all-time highs, it might be hard to consider adding money to a stock like TD Bank, which is down close to 20% on the year. But at these prices, I would consider any of the Big Five banks an absolute steal.

Bank stocks can provide the much-needed stability for an investment portfolio, especially if you own higher growth companies like Shopify and Lightspeed. In addition to that, they can provide some of the highest yields on the market today.

If you're looking to balance out your portfolio with some stability and add some passive income, bank stocks are exactly what you're looking for.

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