

The Big Six: Time to Bank on the Banks?

August 4, 2024

www.AdvisorInsights.ca | Info@AdvisorInsights.ca | 416-997-9000

Key Takeaways



Economic Headwinds Begin to Wean:

- Following several years of aggressive interest rate increases, which began after the COVID-19 crisis, the Bank of Canada (BoC) raised rates from approximately 0.25% in early 2022 to around 5.0% in mid-2023. We are now entering the initial phases of the easing cycle, with 50 basis points of rate cuts so far in 2024.
- With core inflation back within the BoC's target range and signs of visible stress from an extended period of elevated rates affecting the broader economy and labor markets, we anticipate additional rate cuts in 2024 and 2025.
- We believe these cuts will offer much-needed relief for the economy, benefiting both borrowers and lenders, including the Big-Six Canadian Banks.

Bank Sector Outlook: Tailwinds Ahead or Further Crosswinds:

- The Canadian bank sector has underperformed the broader S&P/TSX Composite Index in four of the past five years. The exception was 2020, when banks emerged from the COVID-19 recession unscathed, reversing provisions for credit losses (PCLs) while experiencing a resurgence in demand for borrowing, a rally in equity markets, and rising net interest margins and profitability.
- Despite the recent underperformance, we do not view this as indicative of a more significant downturn. We continue to see the Canadian bank sector as resilient. Overall, credit performance remains strong, and capital and liquidity buffers are above regulatory minimums. Although increased PCLs are impacting profitability, PCLs remain well below historical levels, including those observed during the depths of the COVID-19 crisis. While funding costs have increased, deposit retention remains strong, and access to wholesale markets is robust.
- Overall, valuations for the sector on both a forward P/E and P/B basis look attractive, with the group trading at a slight discount to long-term averages. We foresee additional tailwinds to earnings growth, pre-provision operating income, and return on equity.

Key Takeaways Cont'd

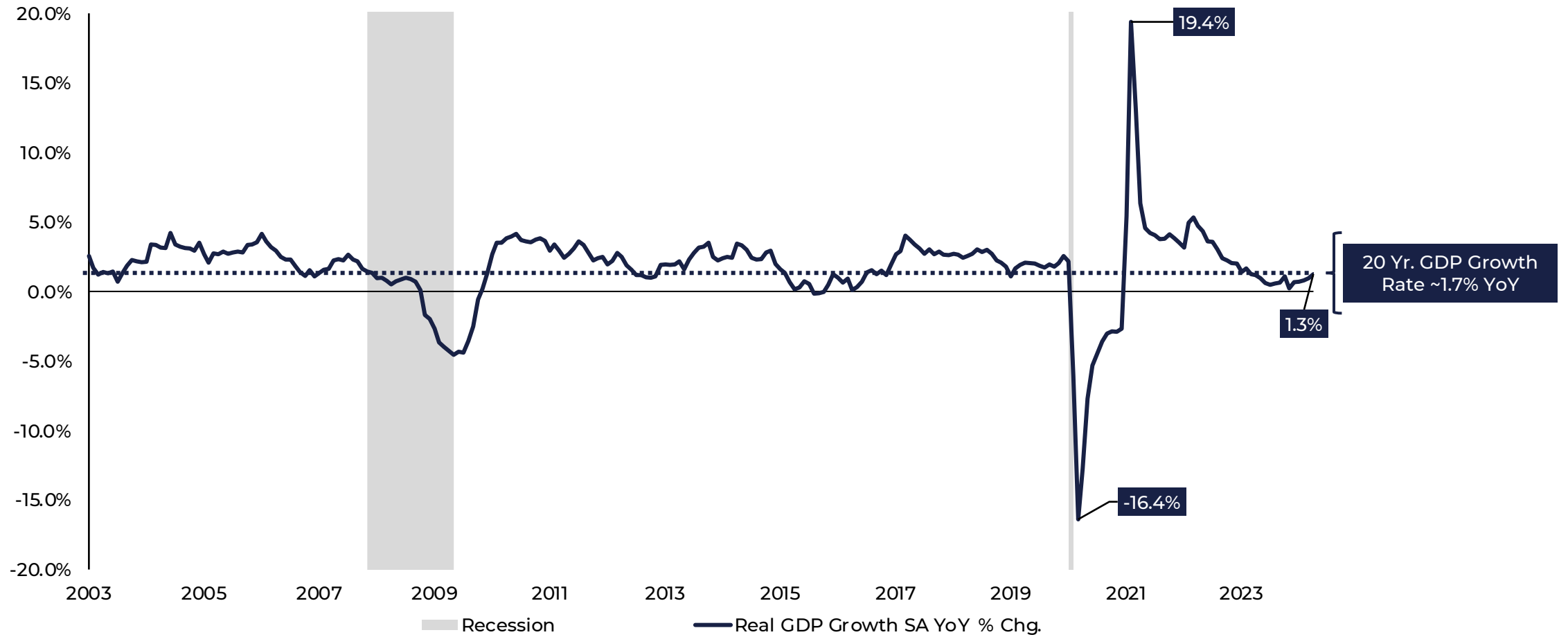
Pecking Order: Which Ones Shall We Choose:

- We preface our recommendation by stating that Canadian banks have been strong compounders and have delivered consistently robust returns for investors over the long-term. Over the past 5, 10, and 15-years, an equal-weighted basket of the big-six banks would have generated returns of approximately 9.1%, 7.5%, and 8.8%, respectively. Looking ahead, depending on your investment style (value or growth), time horizon (short, medium, or long term), and risk appetite (low, medium, or high), we see good value across the Canadian bank group today.
- For our clients, we prefer banks led by management teams with strong track records of operational execution, leading banking franchises (e.g., P&C, capital markets, and wealth management), strong organic growth potential, solid financial profiles and profitability, and shareholder-friendly policies. Historically, these traits have commanded a premium multiple compared to the broader bank group, and when reasonable, we have been comfortable paying a premium for these qualities. With this in mind, our top bank picks include **Royal Bank of Canada (RY)** and **National Bank of Canada (NA)**.
- For investors seeking sector exposure with a more passive approach, the **BMO Equal Weight Banks ETF (ZEB)** offers an excellent solution. This low-cost ETF provides equal weight exposure to the Big Six banks, ensuring balanced representation and diversification within the sector.

Contact us to for more detailed insight on the bank sector: Info@AdvisorInsights.ca

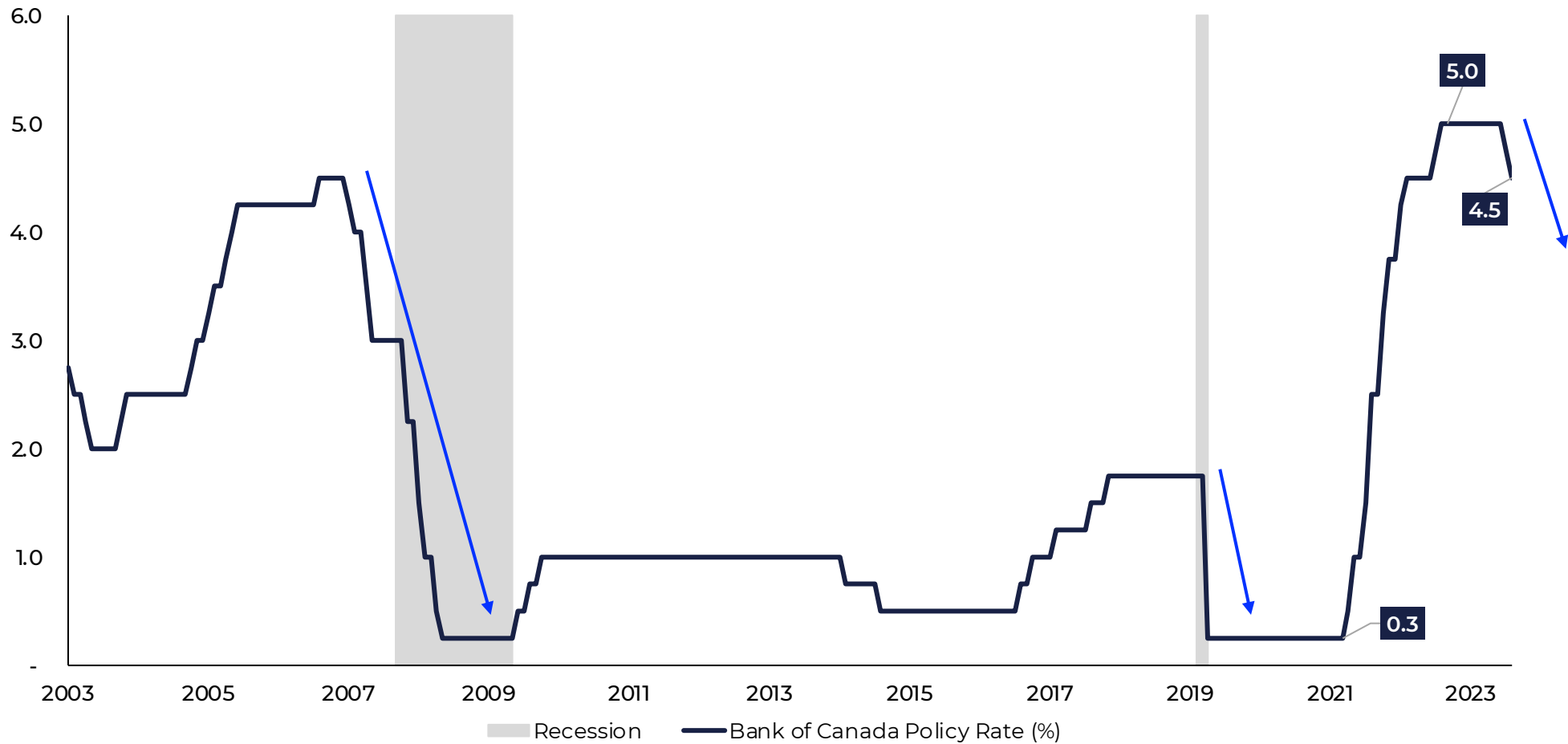
Canadian Economy: Growth Momentum Slowing

Canada Real GDP Normalizing



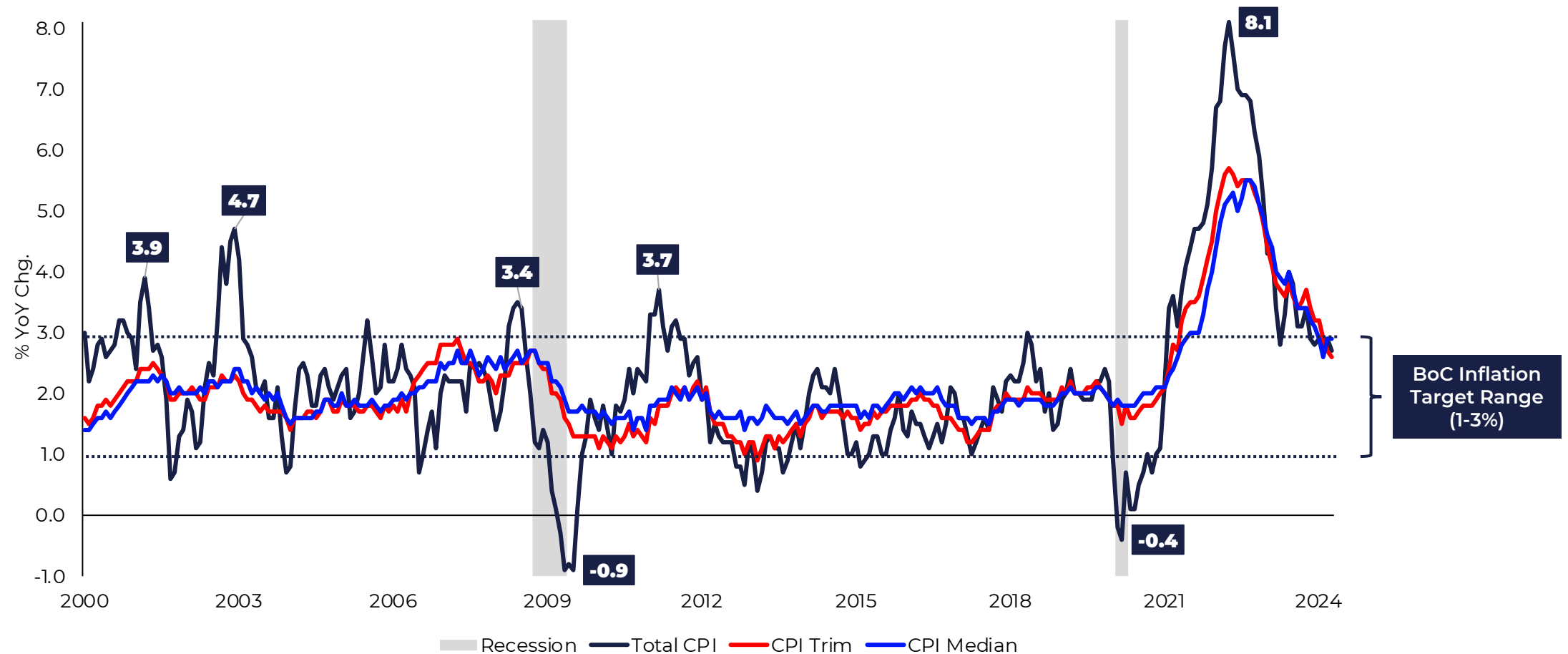
Source: Bloomberg, NBER, FRED, Advisor Insights; As of May 2024

BoC Begins Easing Cycle...



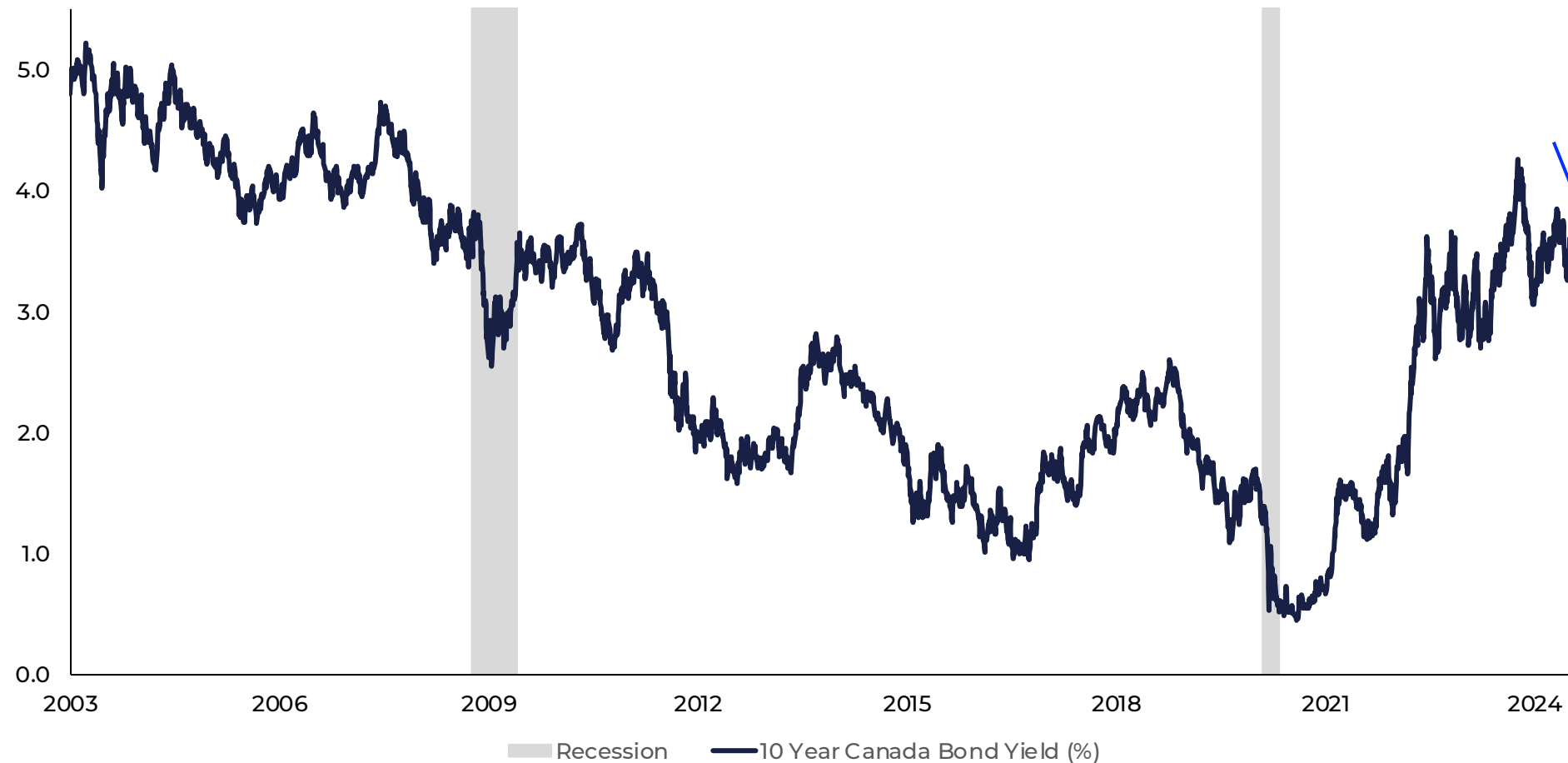
Source: BoC, Advisor Insights; As of July 31, 2024

CPI in BoC Target Range & Falling



Source: BoC, Advisor Insights; As of June 2024

10 YR Gov. Bond Yields Falling

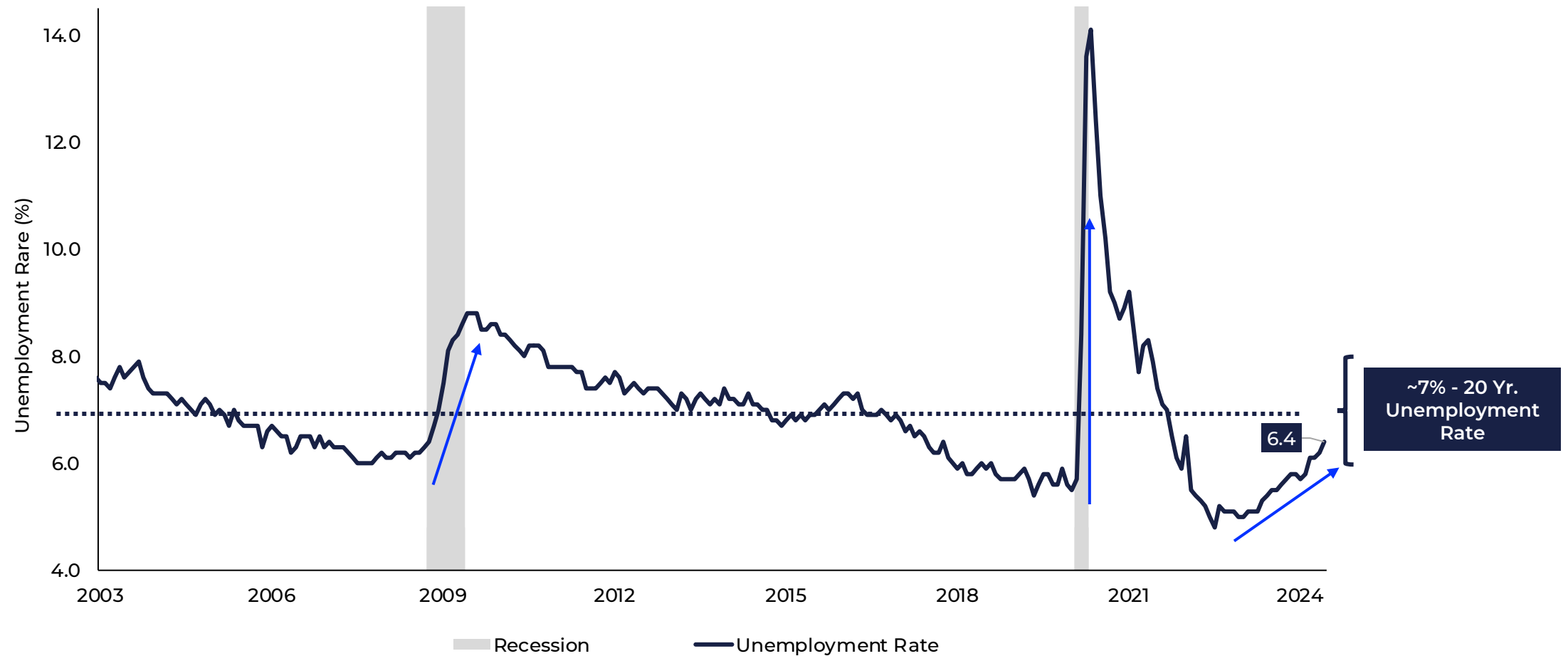


10-2 Year Spreads Improving



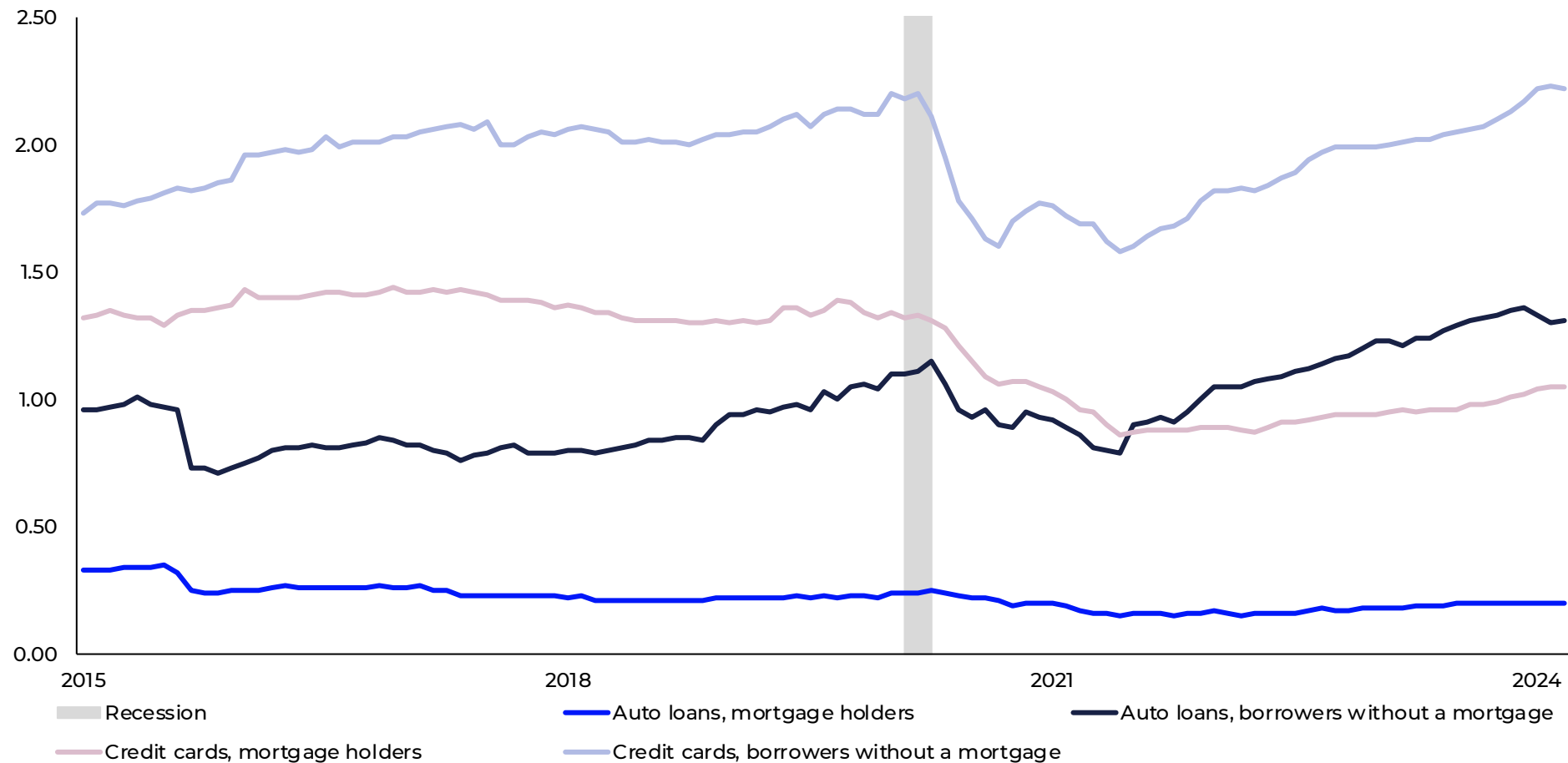
Source: BoC, Advisor Insights; As of July 31, 2024

Unemployment Rate Rising



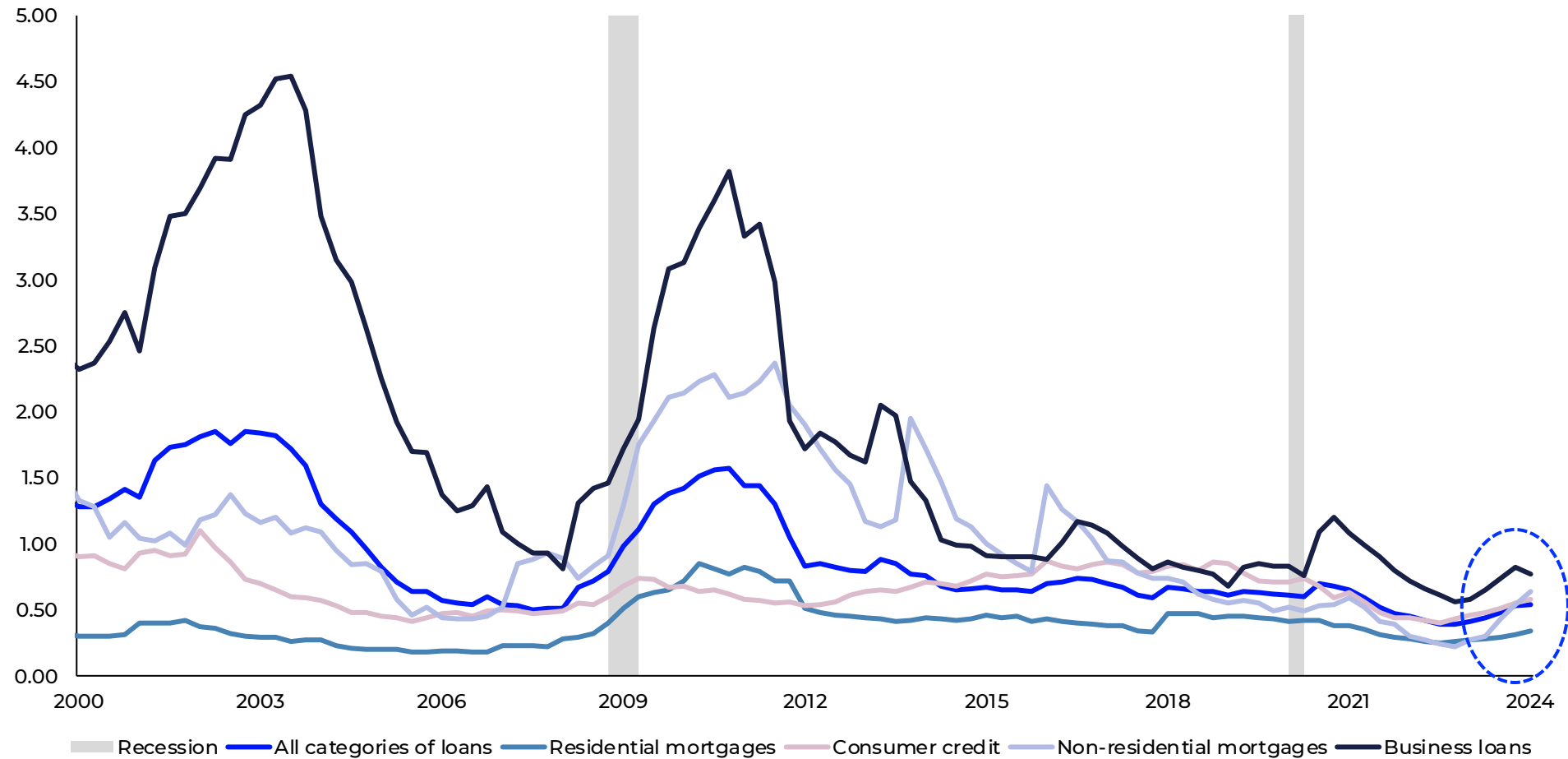
Source: FRED, Stats Canada, Advisor Insights; As of July 31, 2024

Delinquencies ↗ But Not Broadly



Source: Bank of Canada, FRED, Stats Canada, Advisor Insights; As of July 31, 2024

Big 6: Total Impaired Loans Low

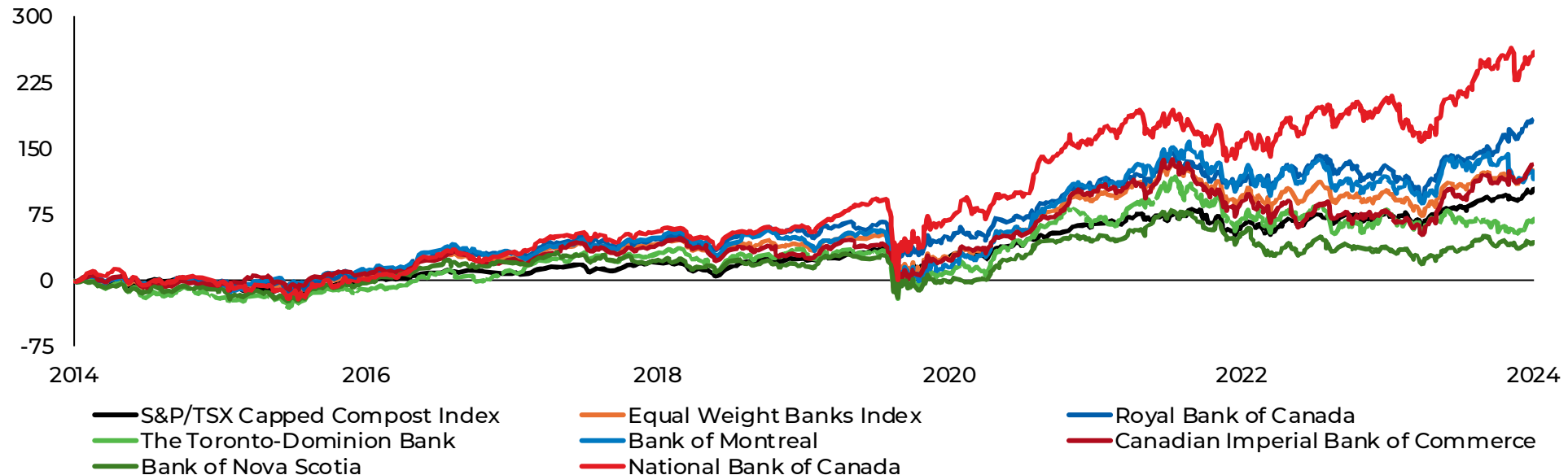


Source: Bank of Canada, FRED, Stats Canada, Advisor Insights; As of July 31, 2024

Canadian Banking Sector: Headwinds Persist, But...

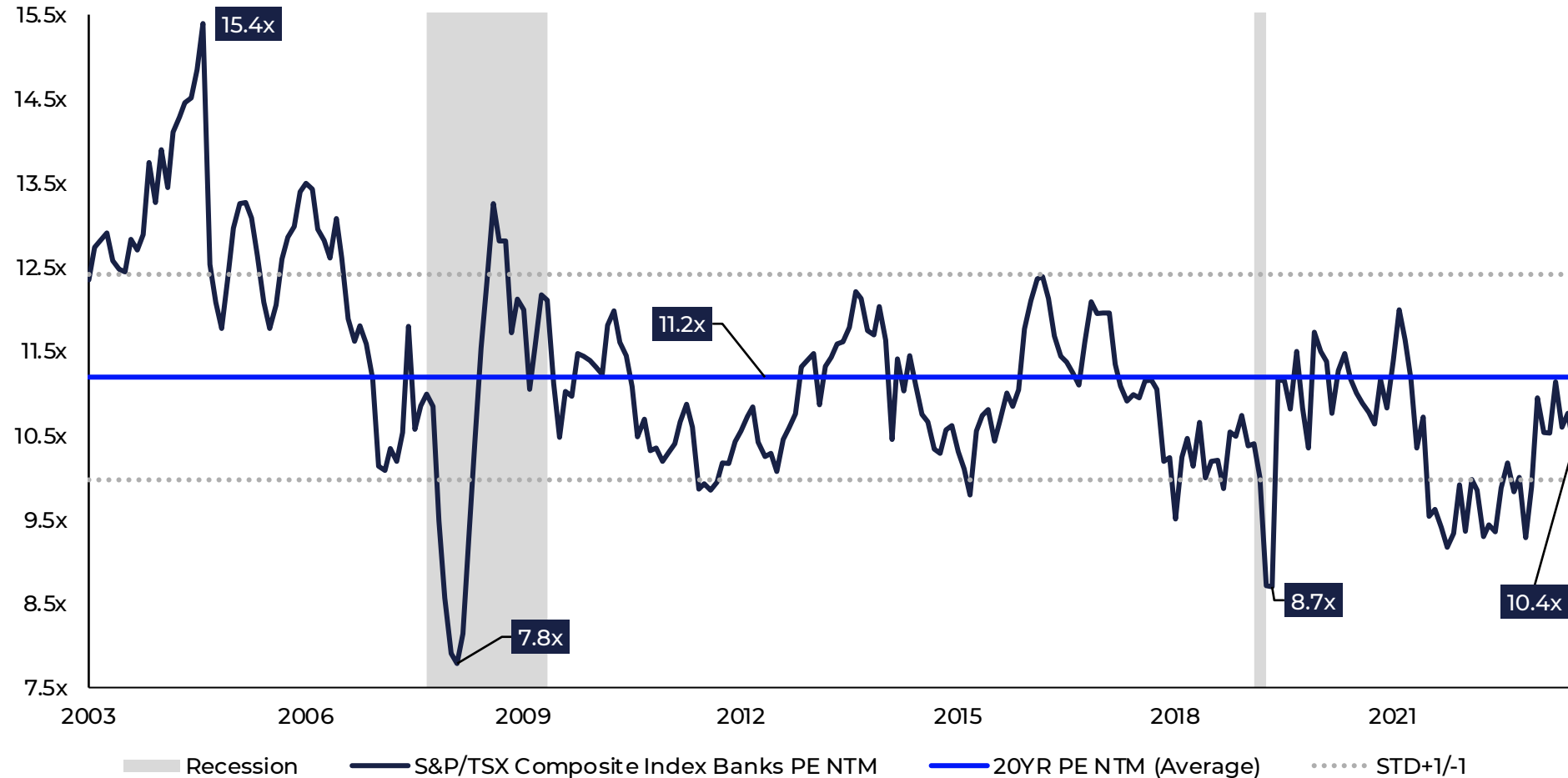
Its All Relative...

	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Royal Bank of Canada	5.6%	14.8%	16.8%	21.8%	10.0%	11.4%	9.3%	9.7%
Toronto Dominion	8.5%	1.0%	-2.3%	-2.5%	3.4%	5.2%	6.9%	9.1%
Bank of Montreal	1.2%	-5.8%	-9.0%	-0.3%	2.1%	7.5%	7.0%	8.1%
Canadian Imperial Bank of Com.	7.8%	10.0%	12.7%	28.7%	3.4%	10.9%	7.0%	8.2%
Bank of Nova Scotia	3.7%	1.9%	3.9%	3.8%	-0.8%	3.5%	3.0%	6.0%
National Bank of Canada	6.2%	4.2%	16.2%	15.8%	9.9%	15.7%	11.5%	11.6%
Equal Weight Bank Average	5.5%	4.4%	6.4%	11.2%	4.7%	9.1%	7.5%	8.8%
S&P/TSX Composite Index	4.1%	5.4%	10.4%	14.2%	7.1%	10.1%	7.3%	8.2%



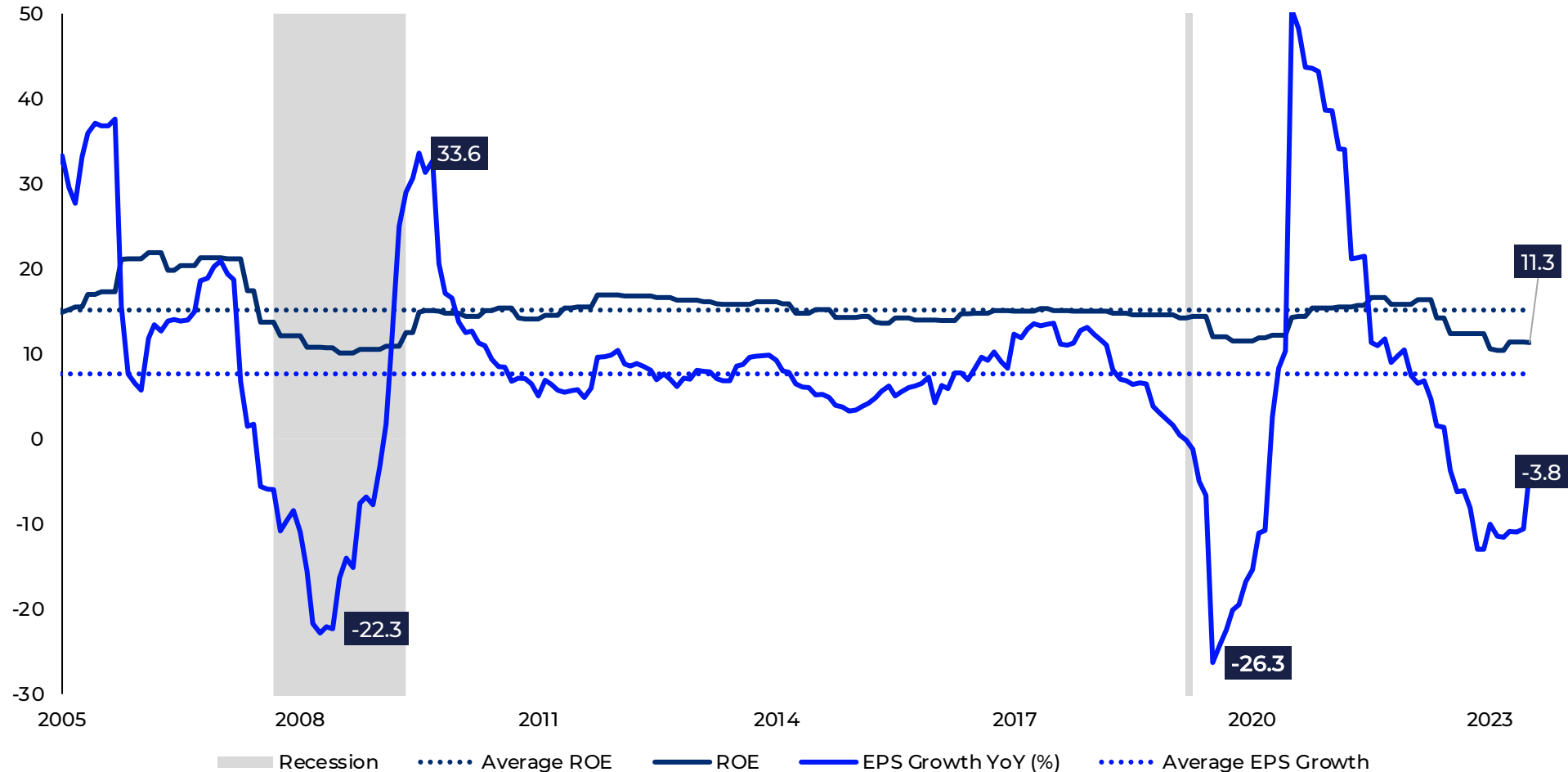
Source: Morningstar; As of July 31, 2024

The Big 6: Slight Discount on P/E



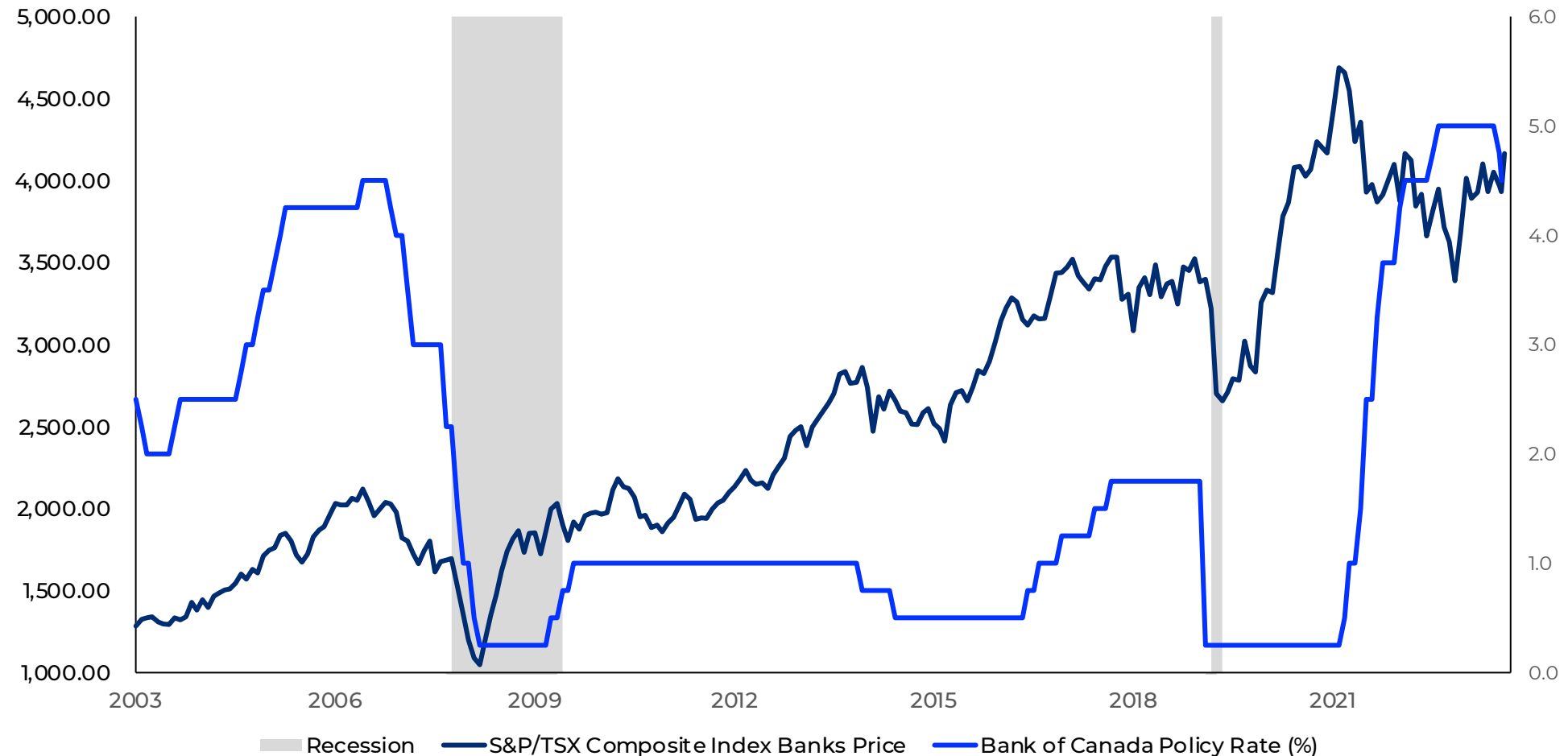
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

EPS Growth + ROEs < 20YR Avg.



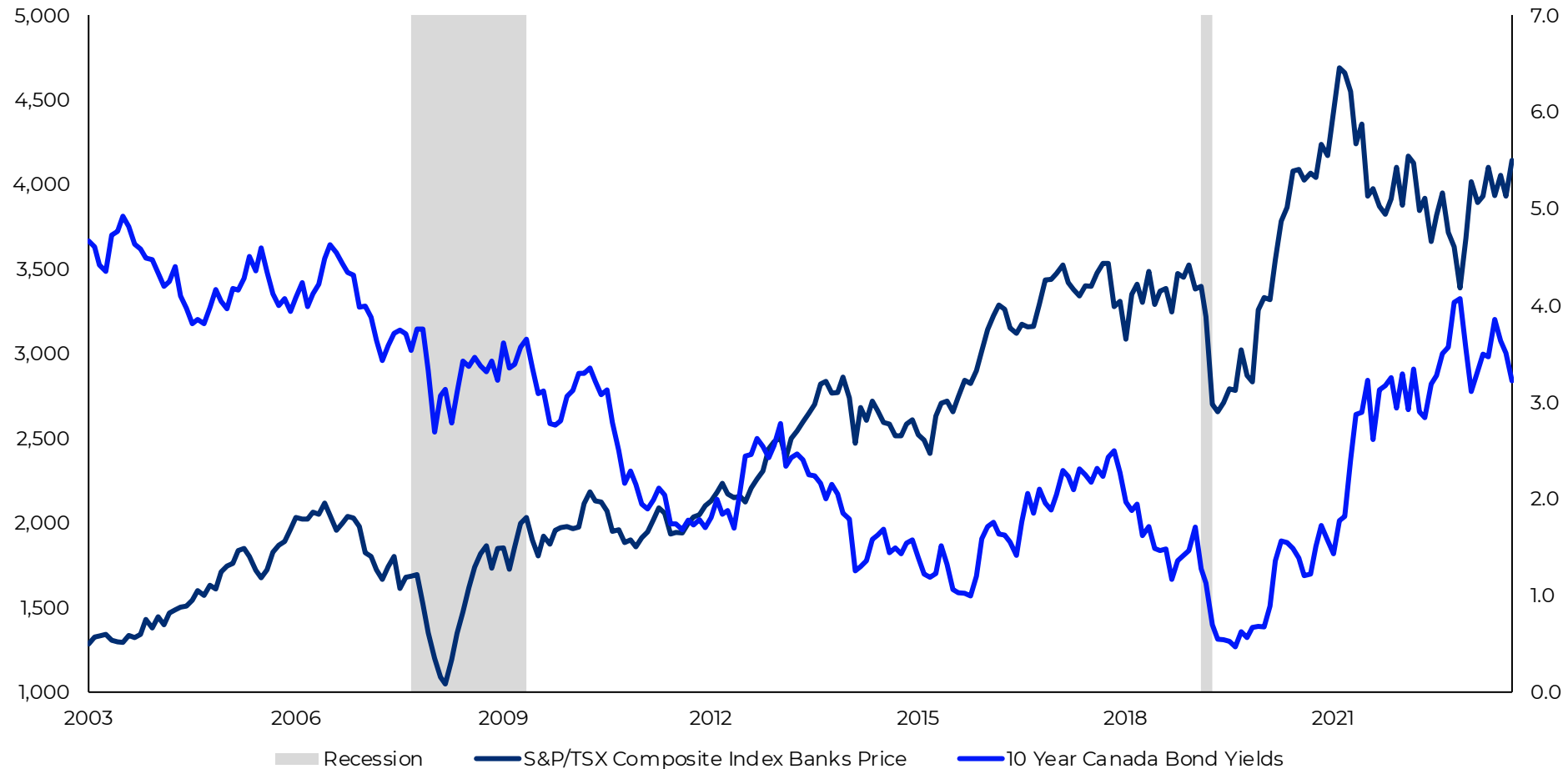
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of June 28, 2024

BoC: Rate Relief, More to Come...



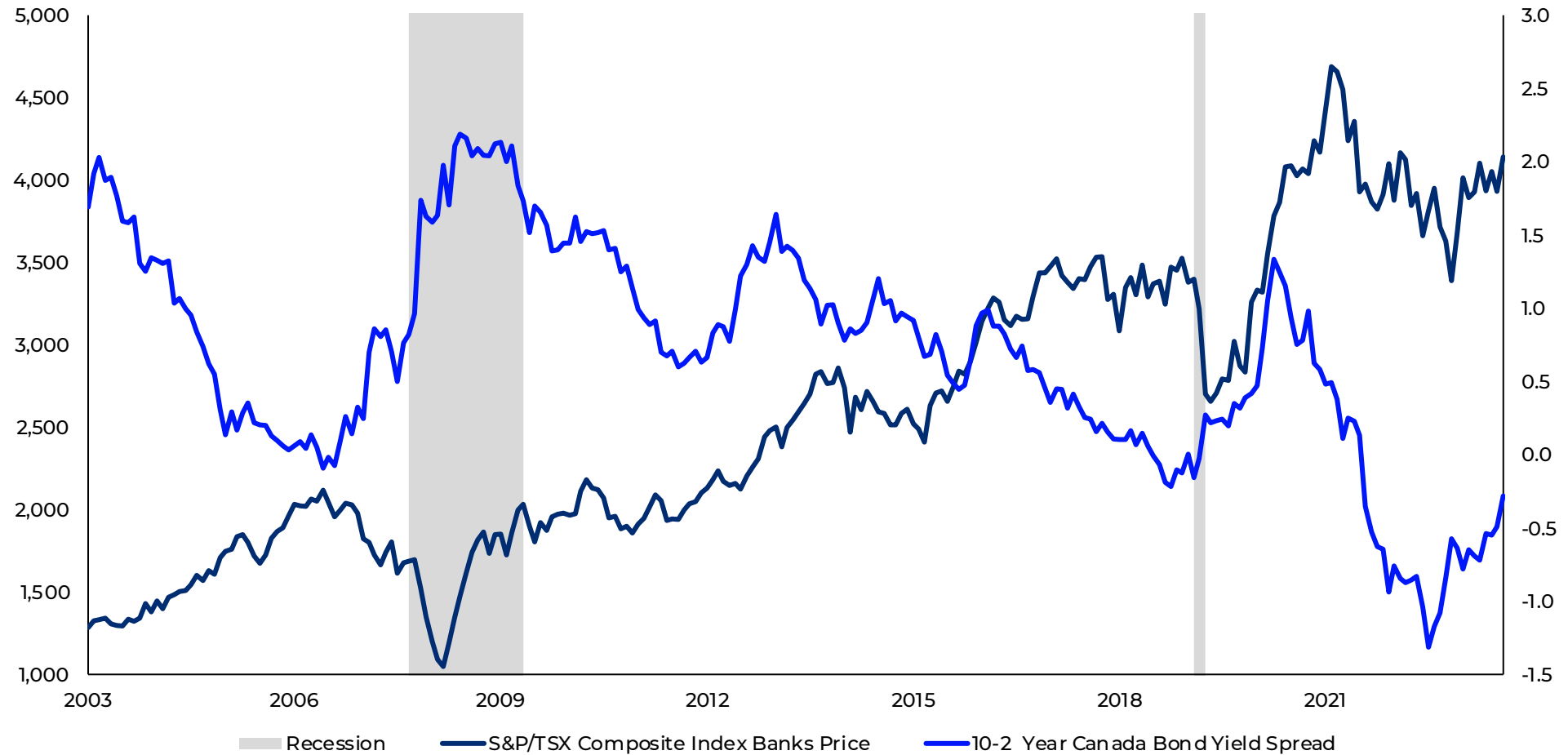
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

Resulting in Falling 10YR Yields



Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

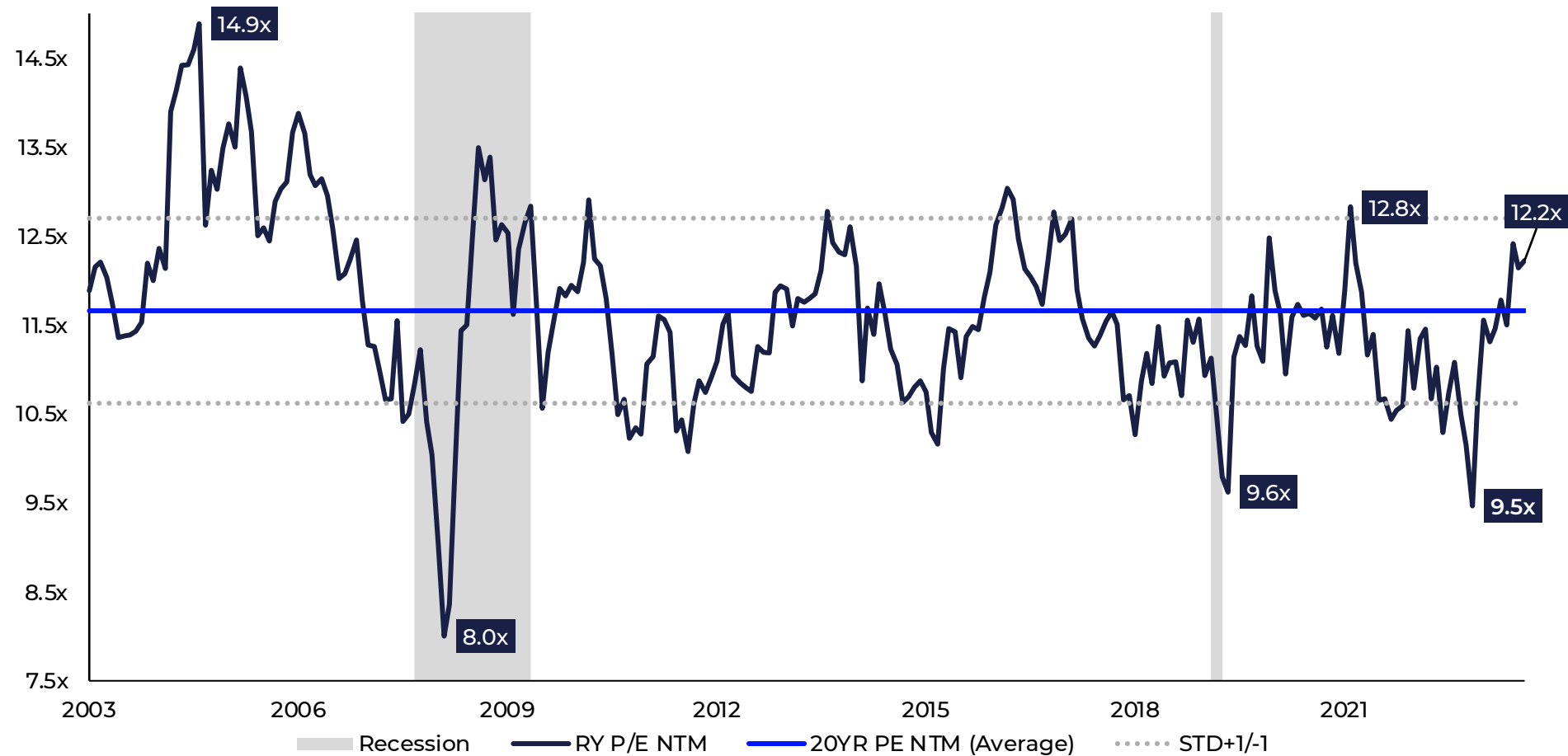
...and Improving 10-2YR Spreads



Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

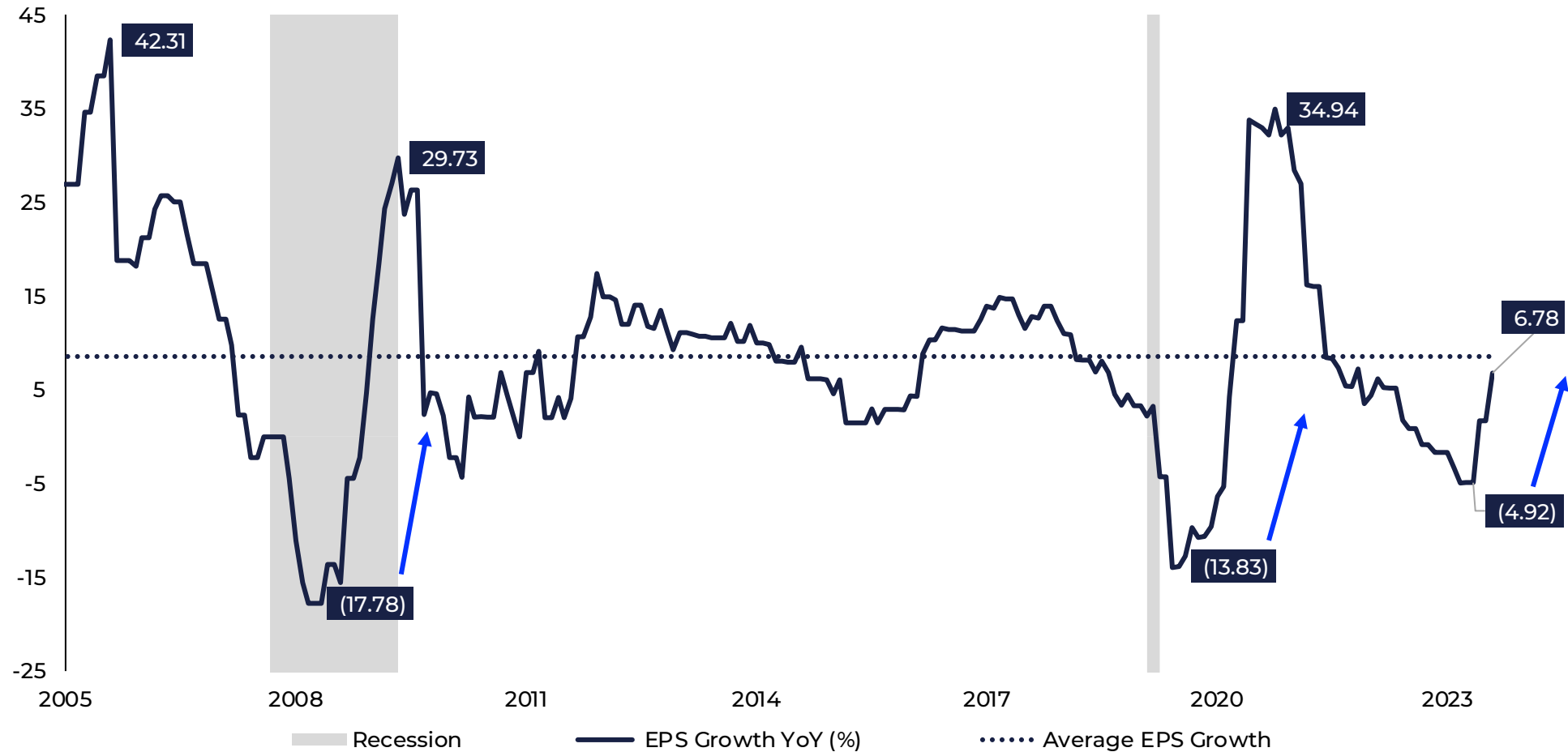
Canadian Big 6 Banks in Focus: Is Now the Time To Buy, Hold, ... Run?

RY: Trading at a Slight Premium



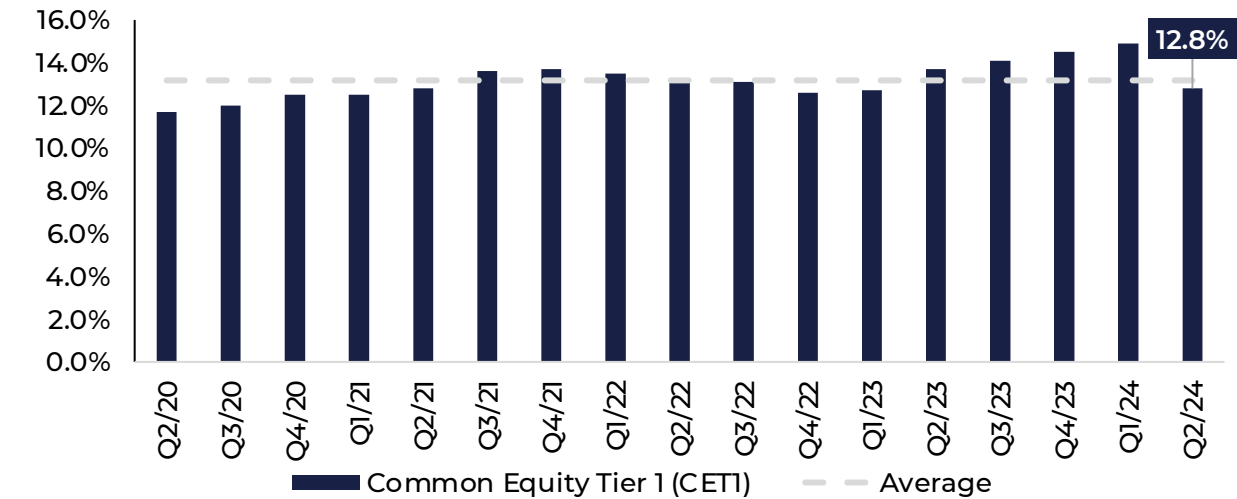
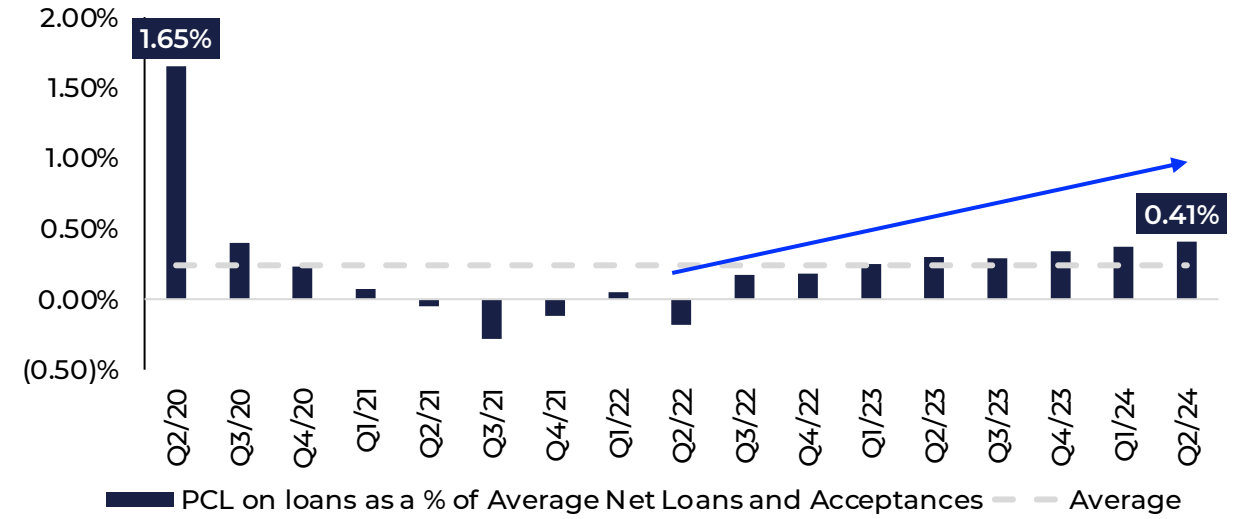
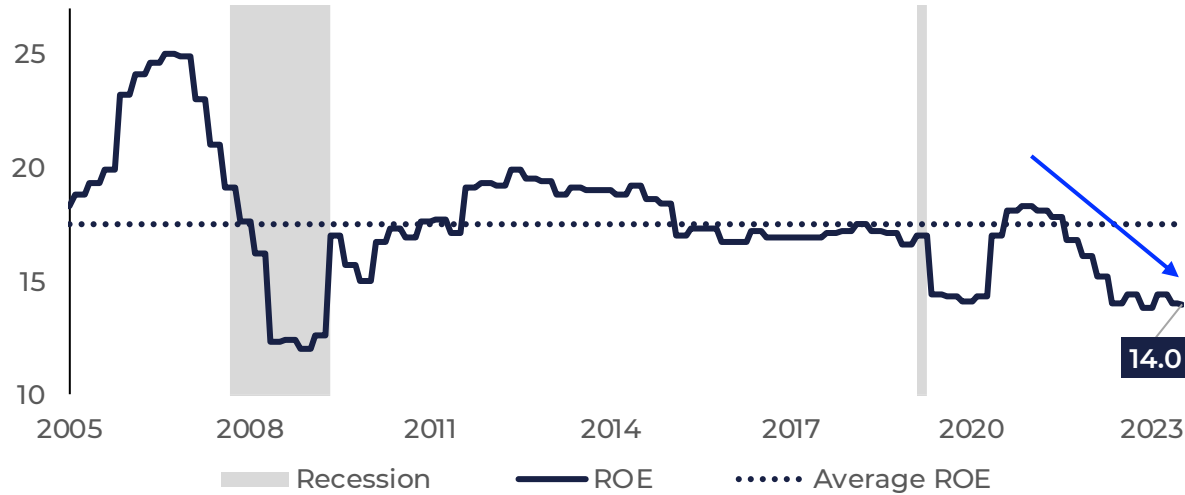
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

And EPS Expectations +Ve

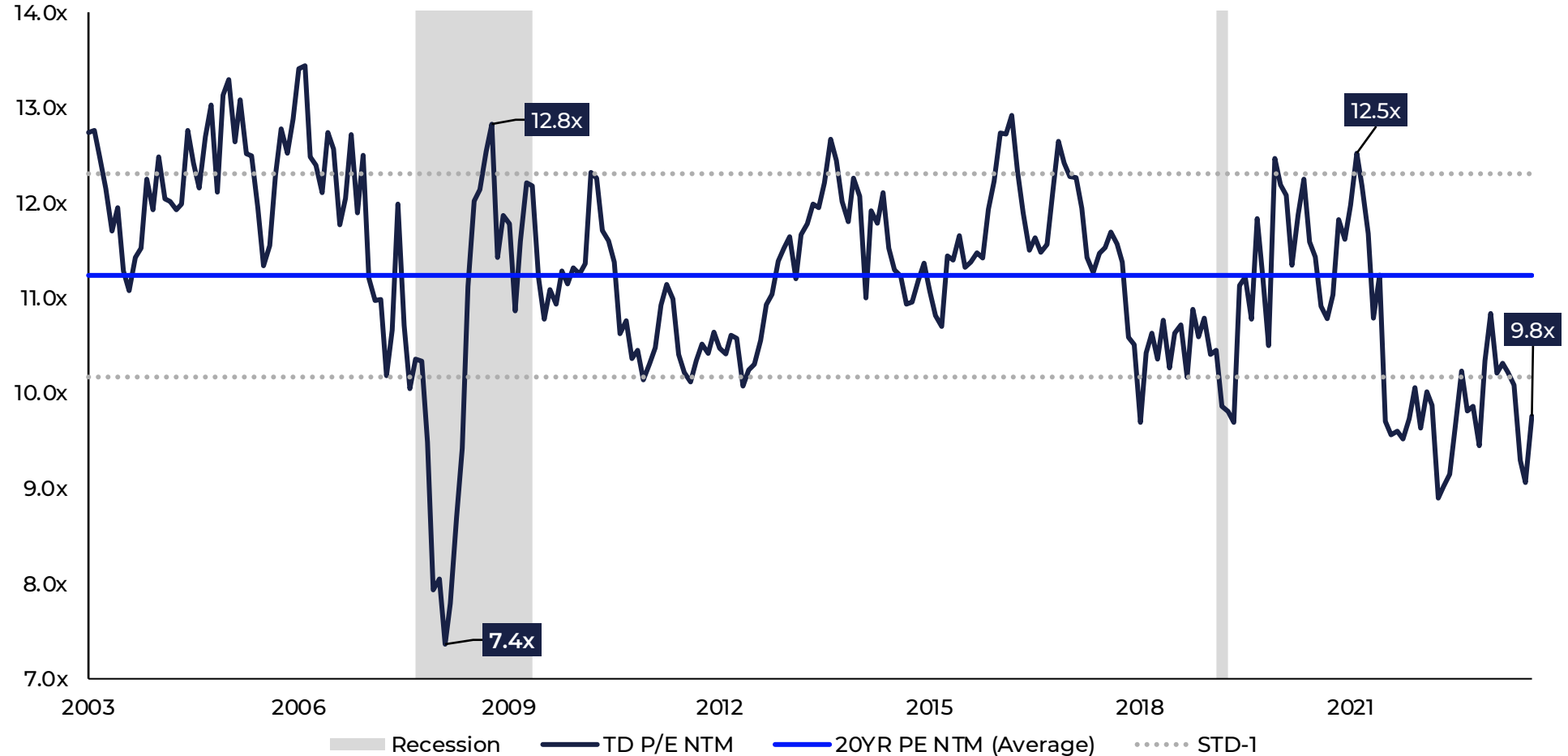


Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

PCL, CET1, & NIMs Strong

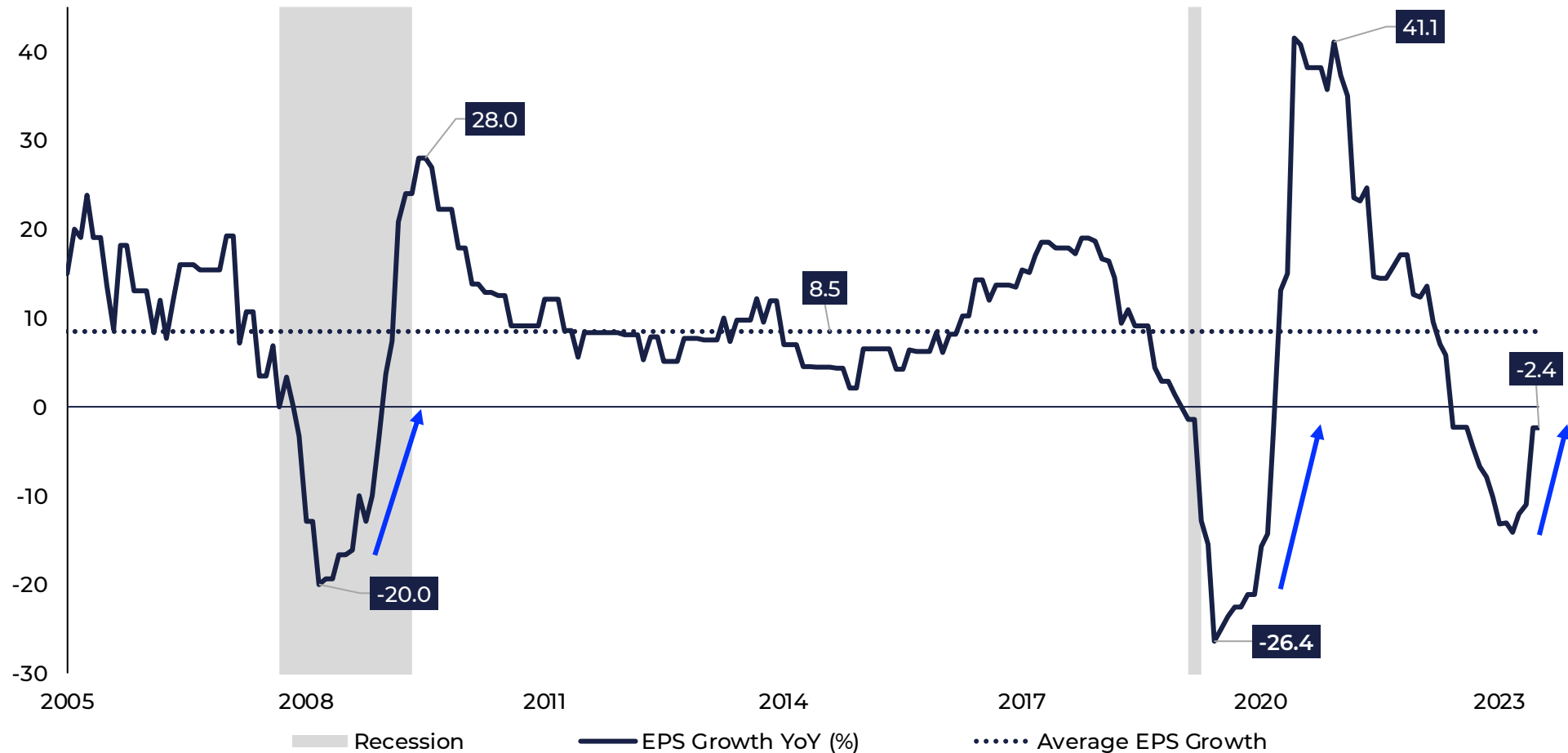


TD: Valuation is Compelling, But...



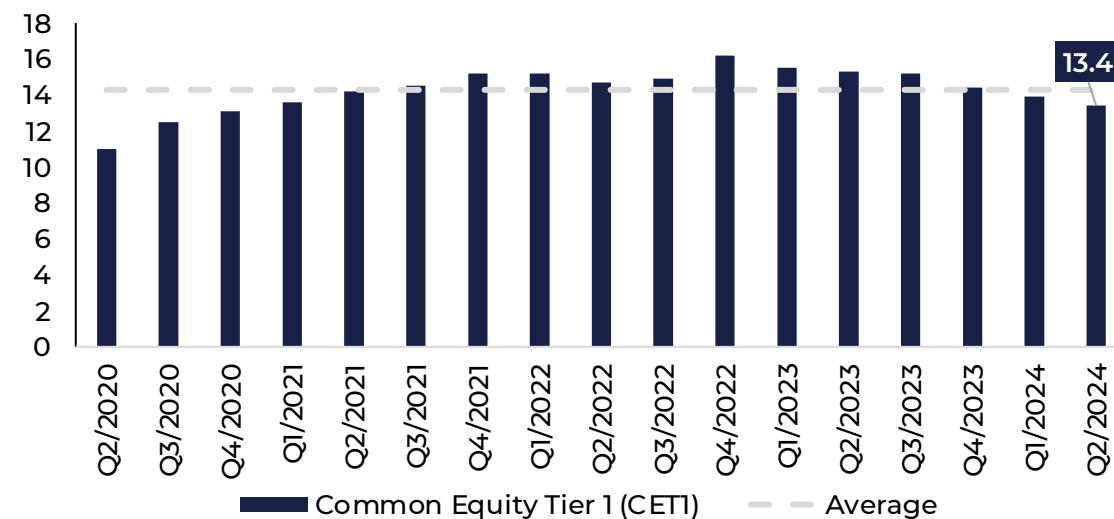
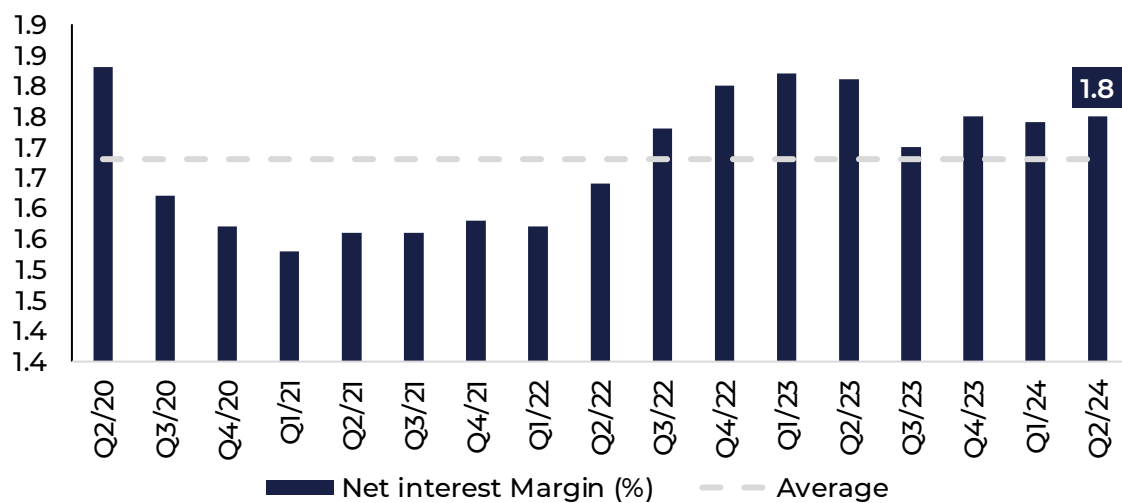
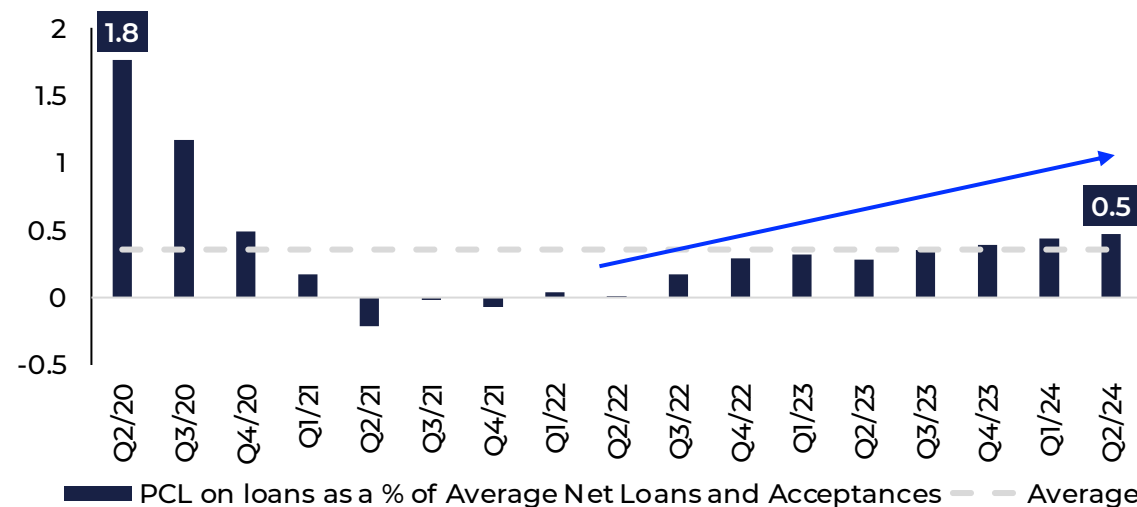
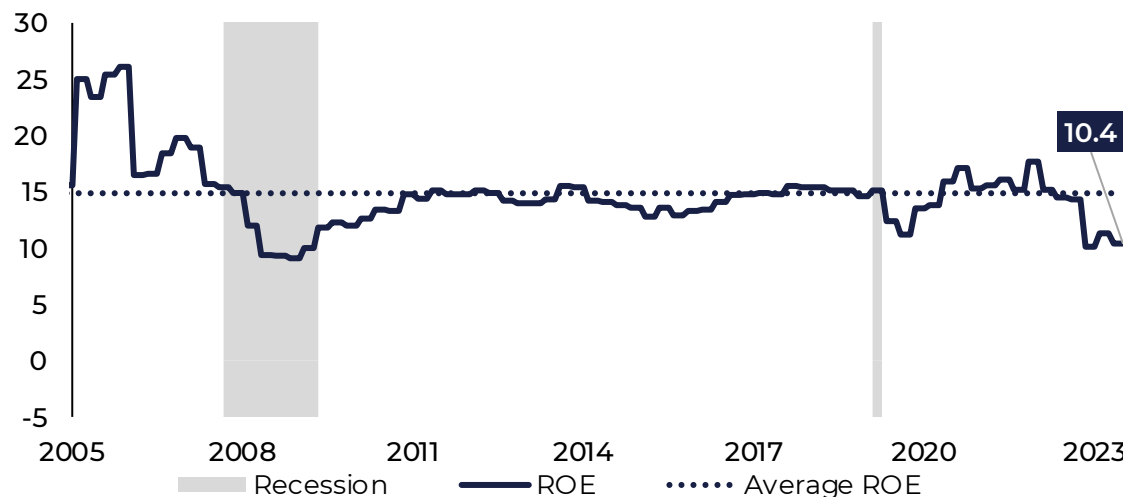
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

EPS Growth Expectations -Ve

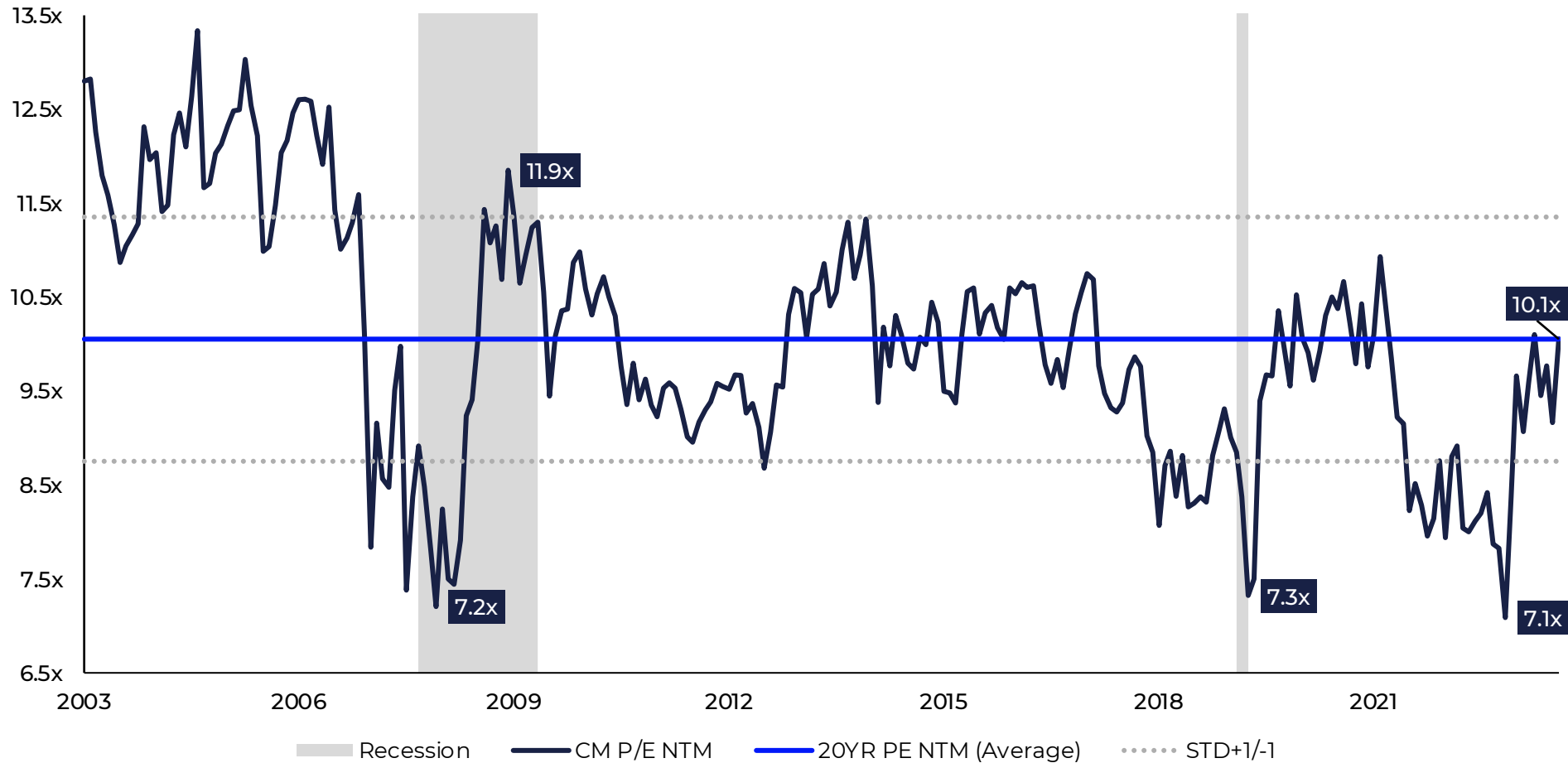


Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

NIMs Flat, But ROEs & CET1



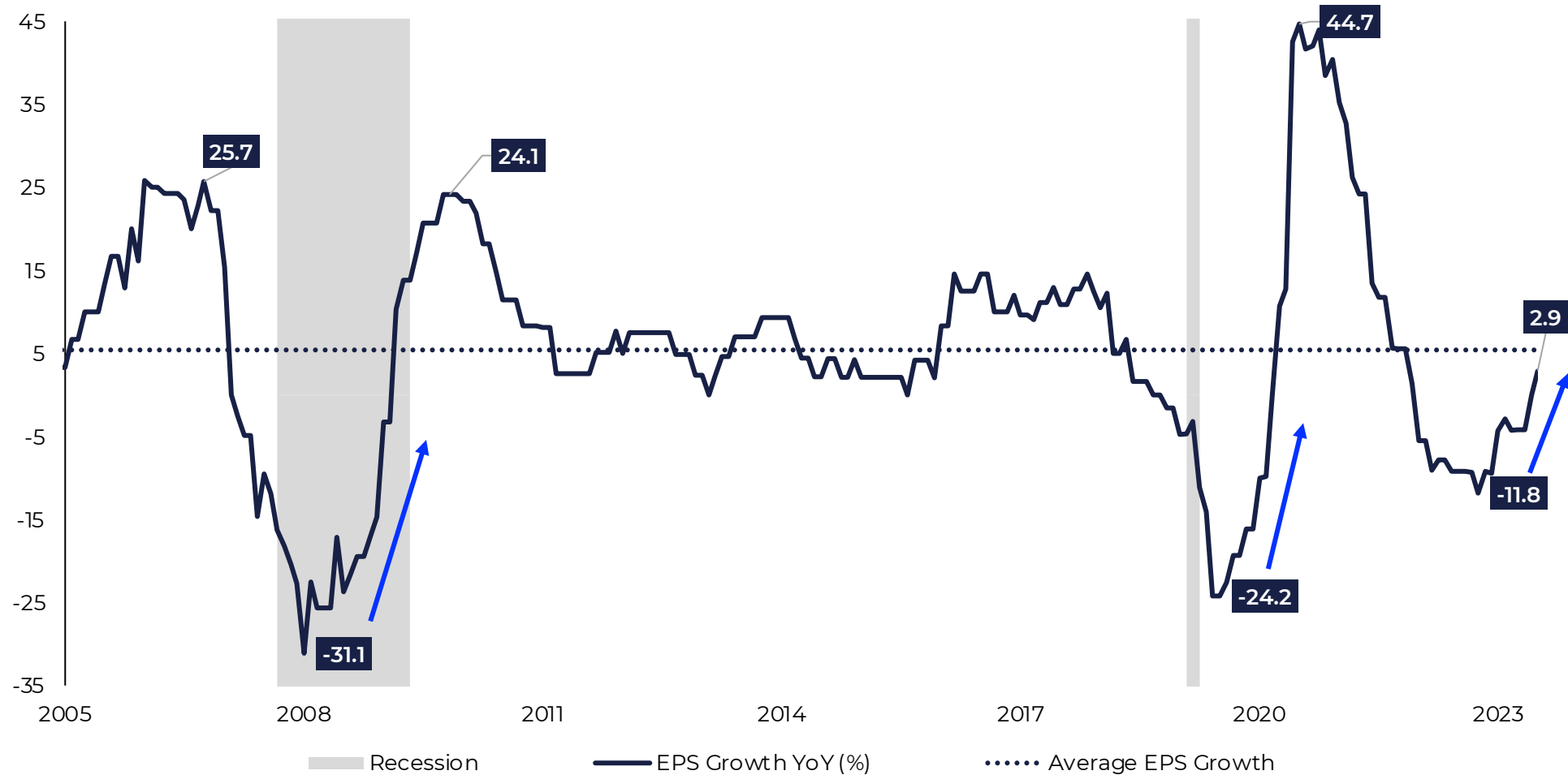
CIBC: Trading At Historical P/E



Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

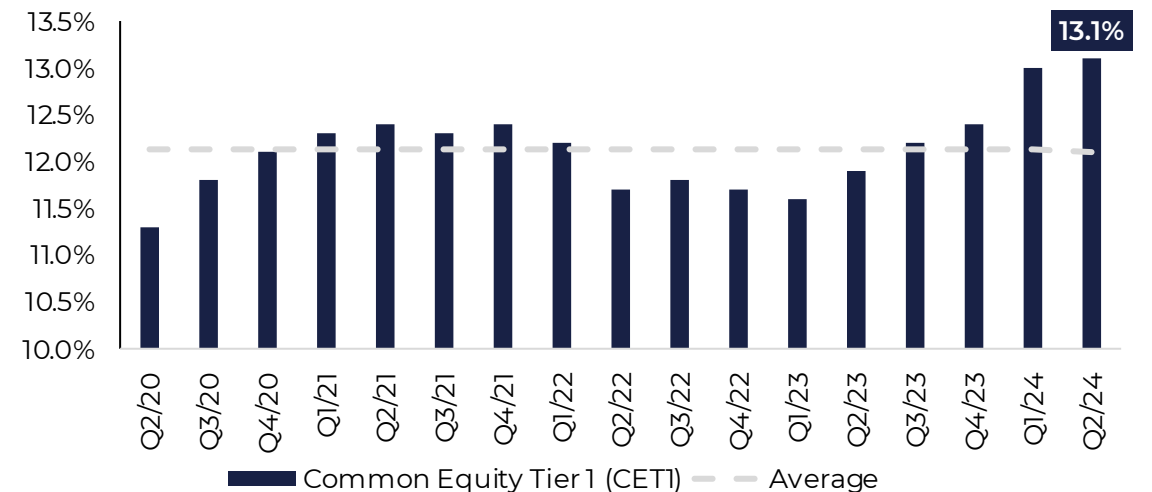
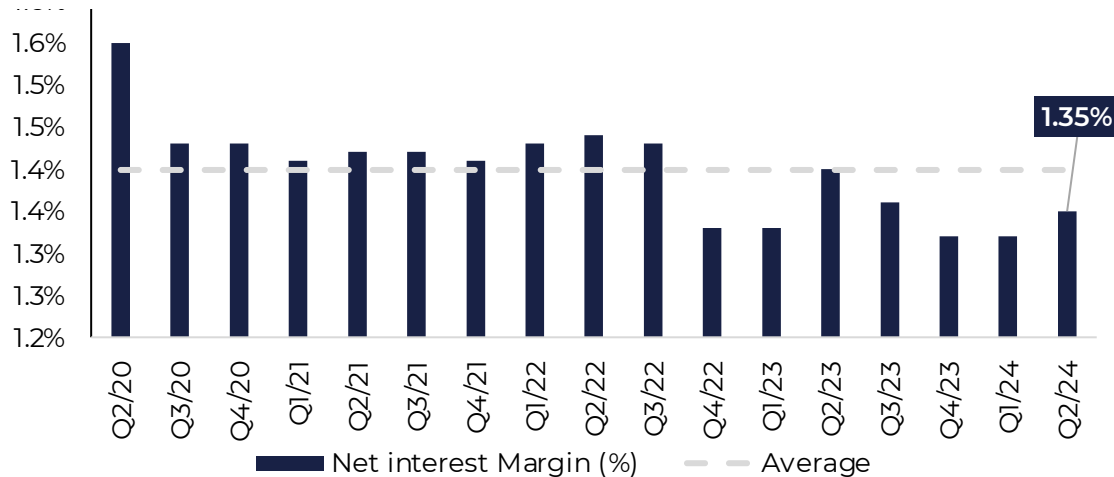
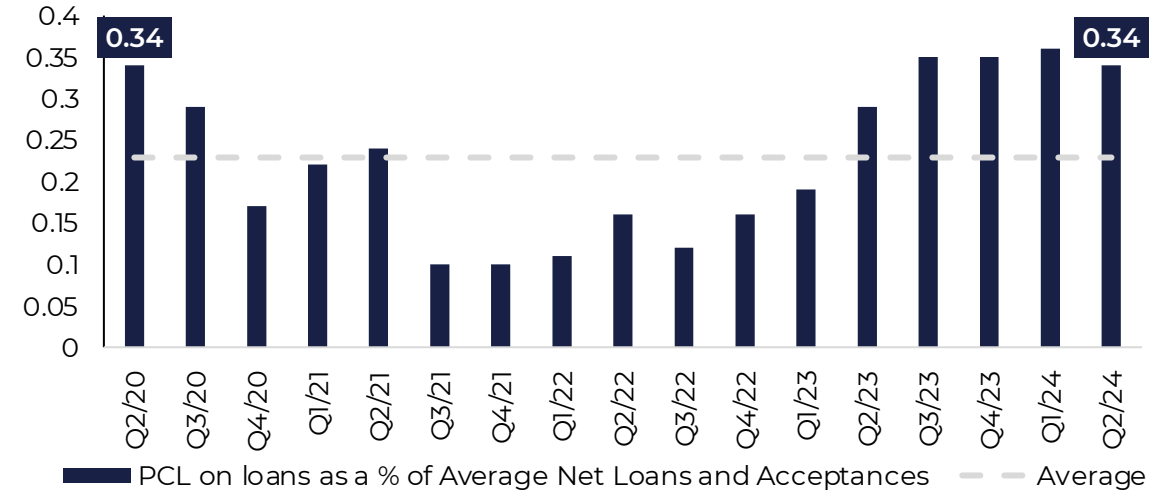
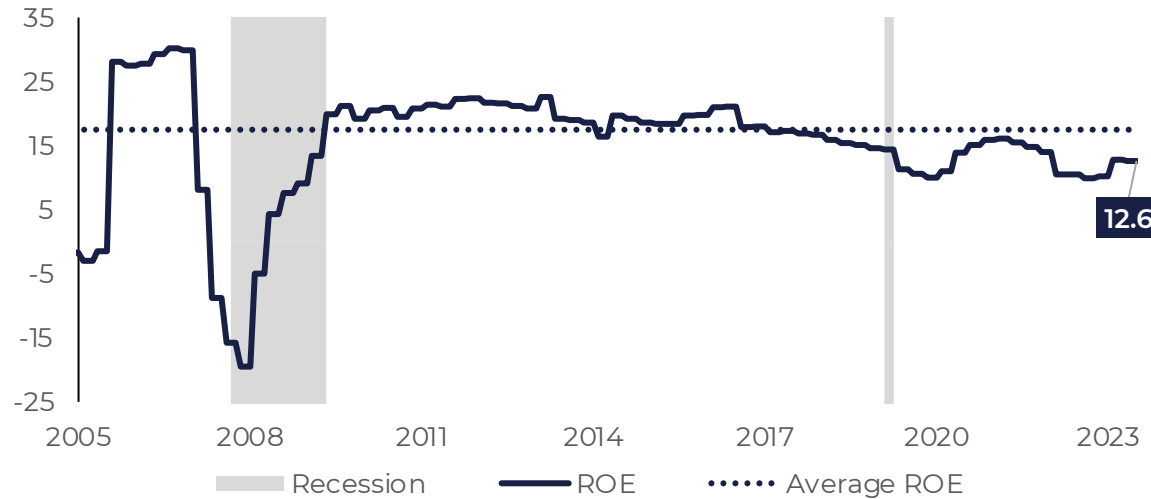
CIBC EPS Growth +Ve & Rising

ADVISOR
INSIGHTS

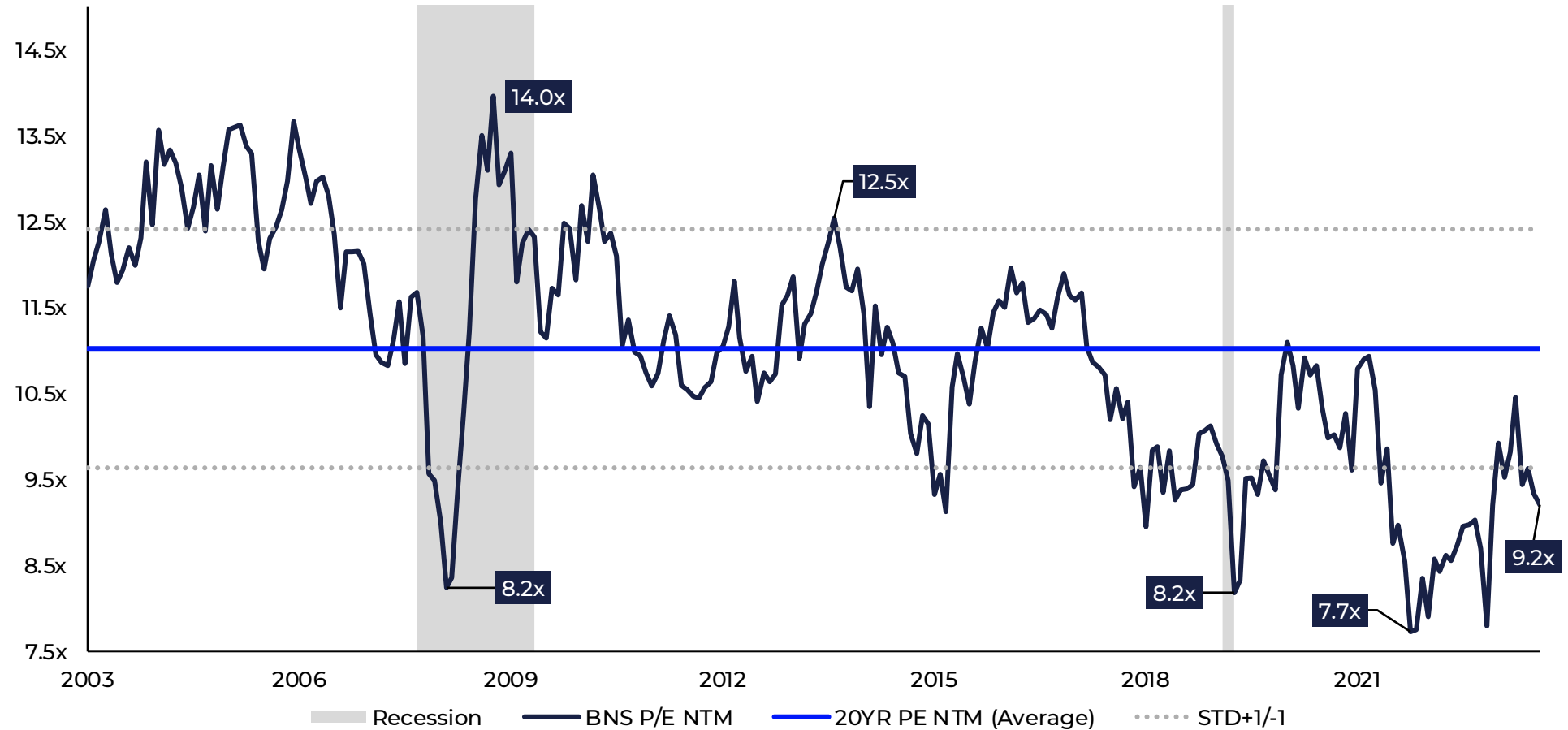


Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

NIMs & ROE Below Historical Avg.

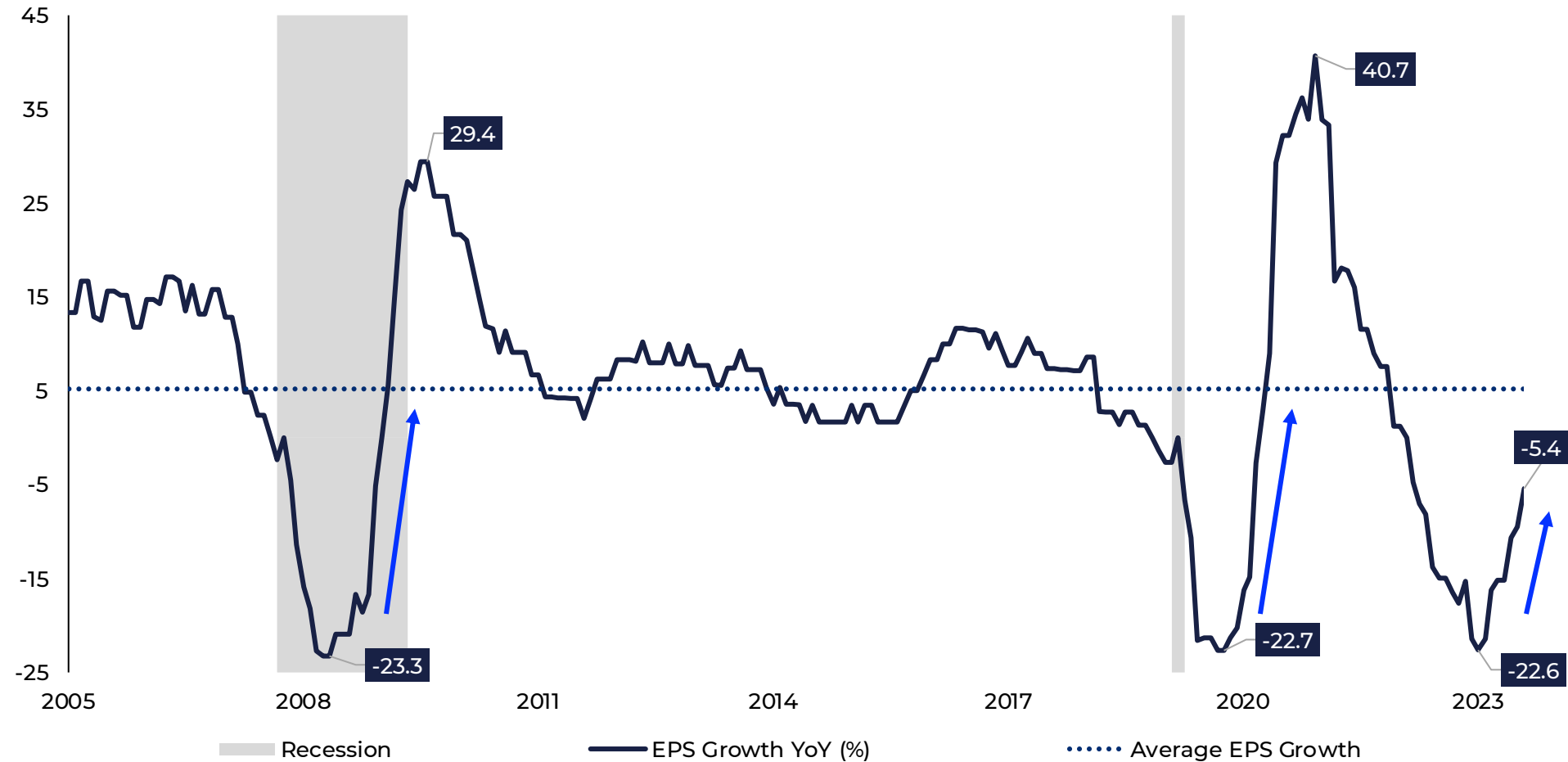


BNS: NTM P/E Below -1 STD



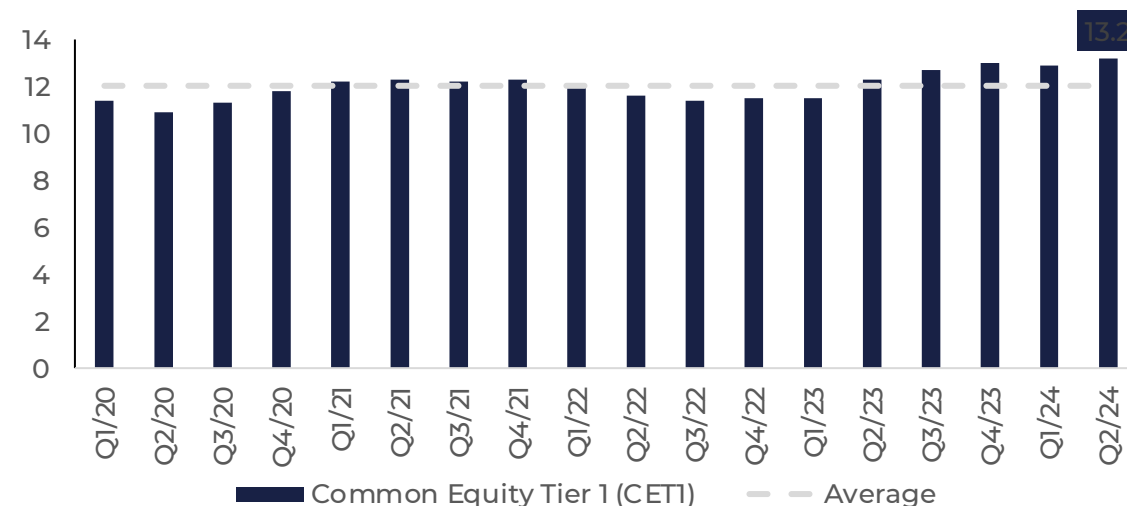
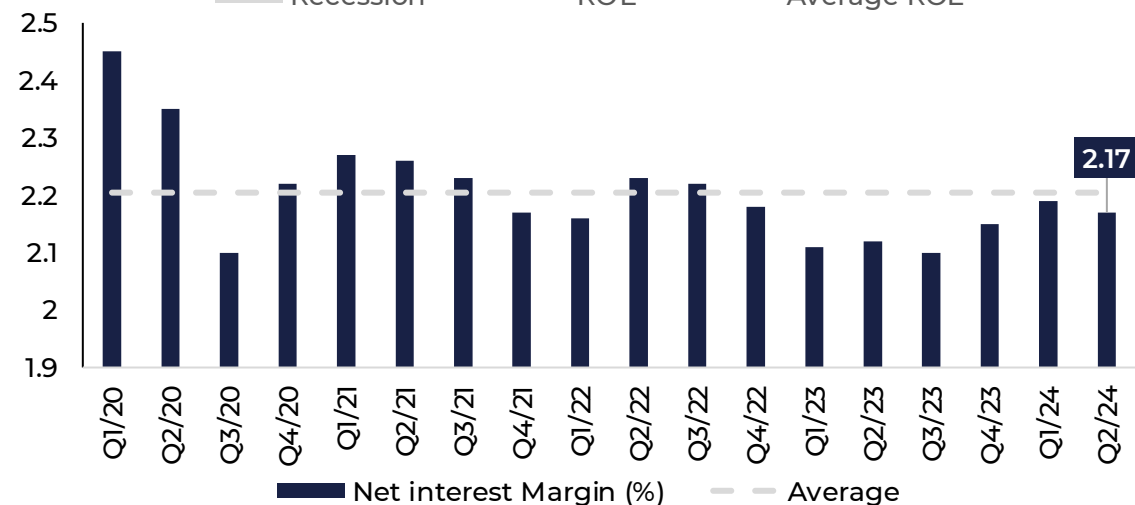
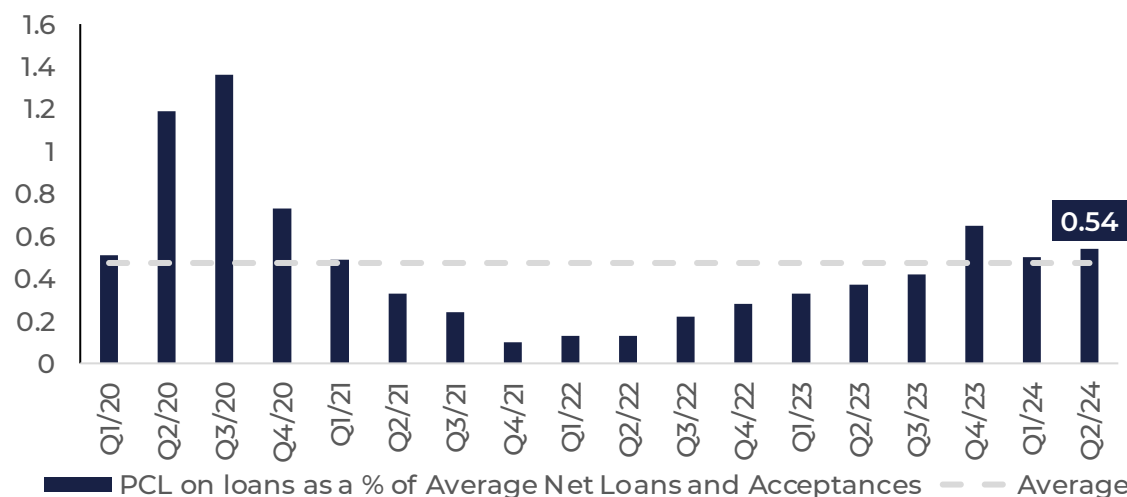
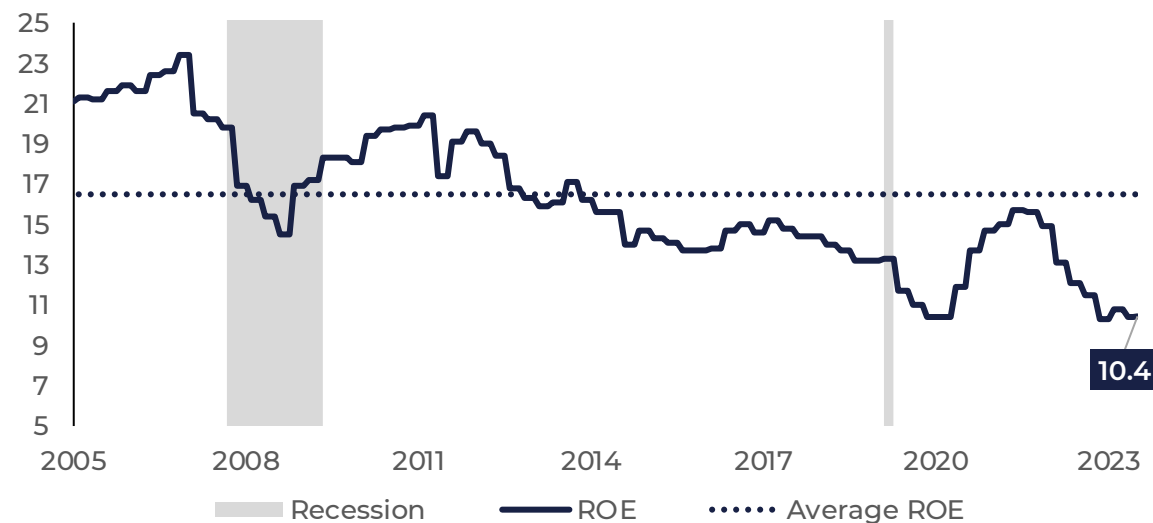
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

EPS YoY Bouncing From Lows

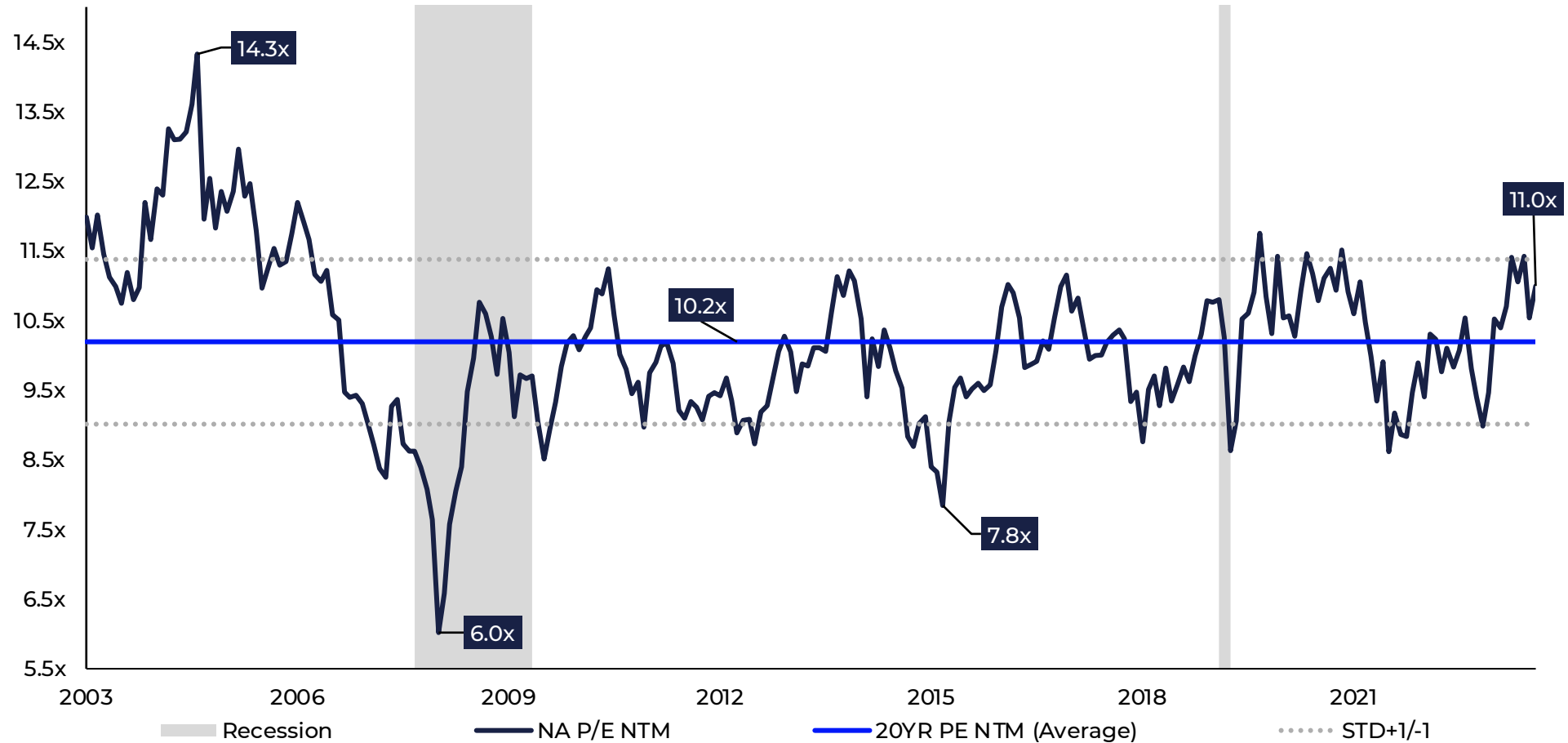


Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

ROEs Below Long-Term Avg.



NA: A Premium Valuation



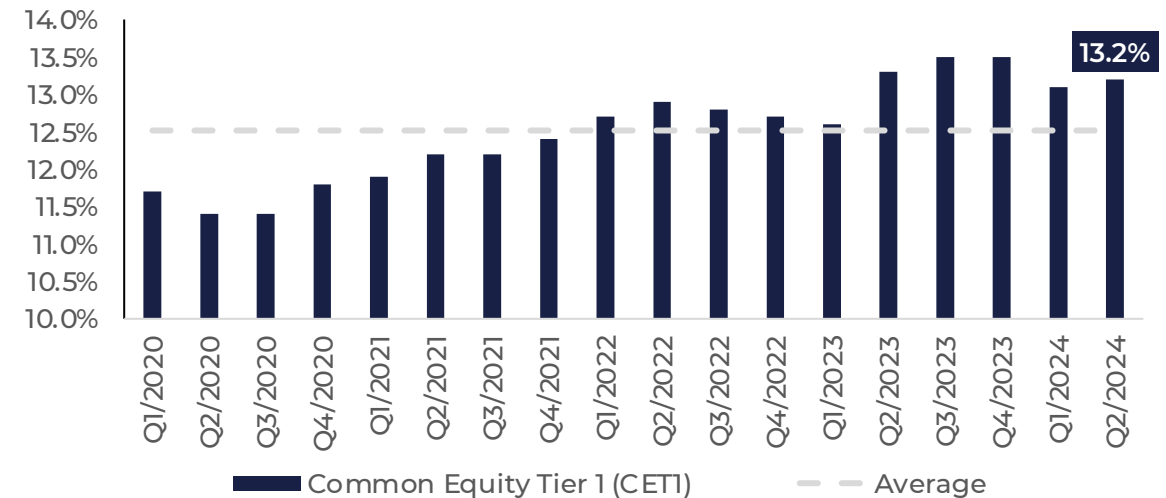
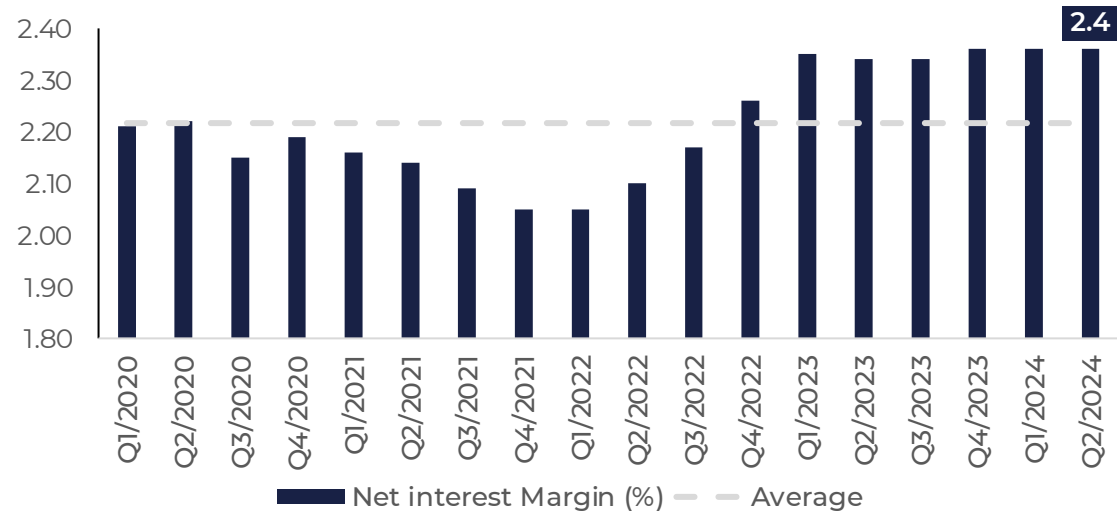
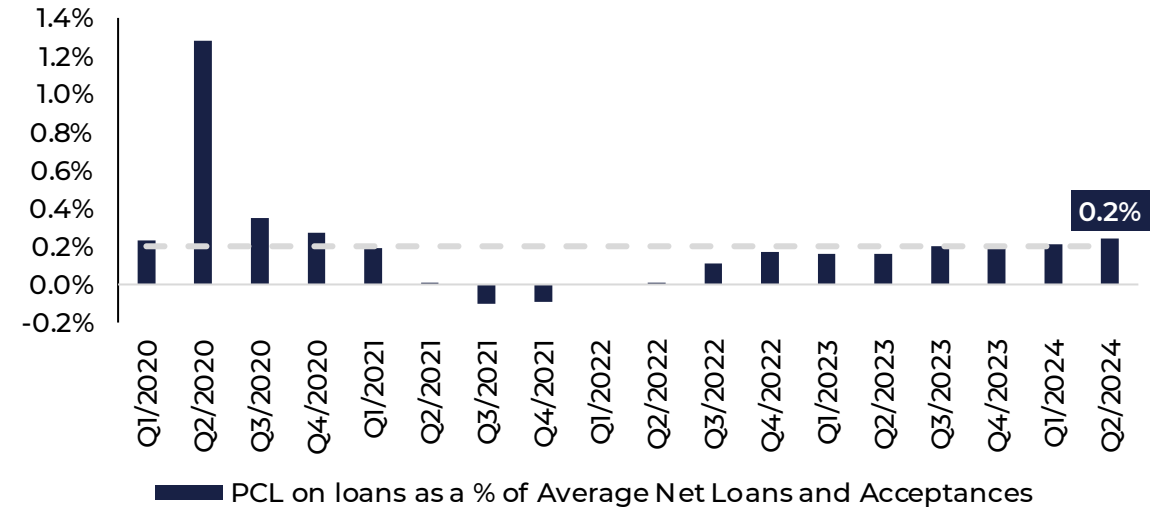
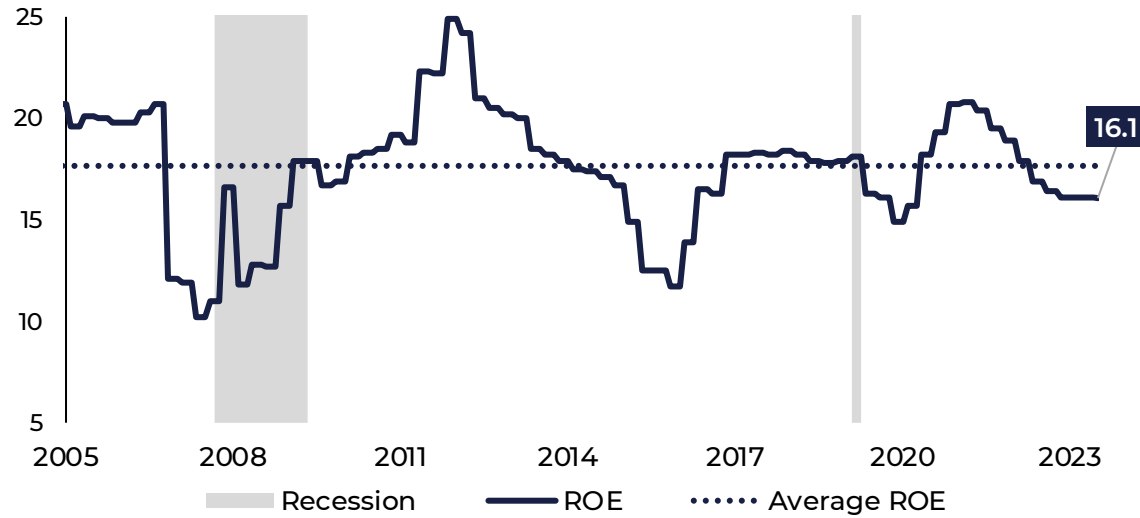
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

EPS Growth Positive & Rising

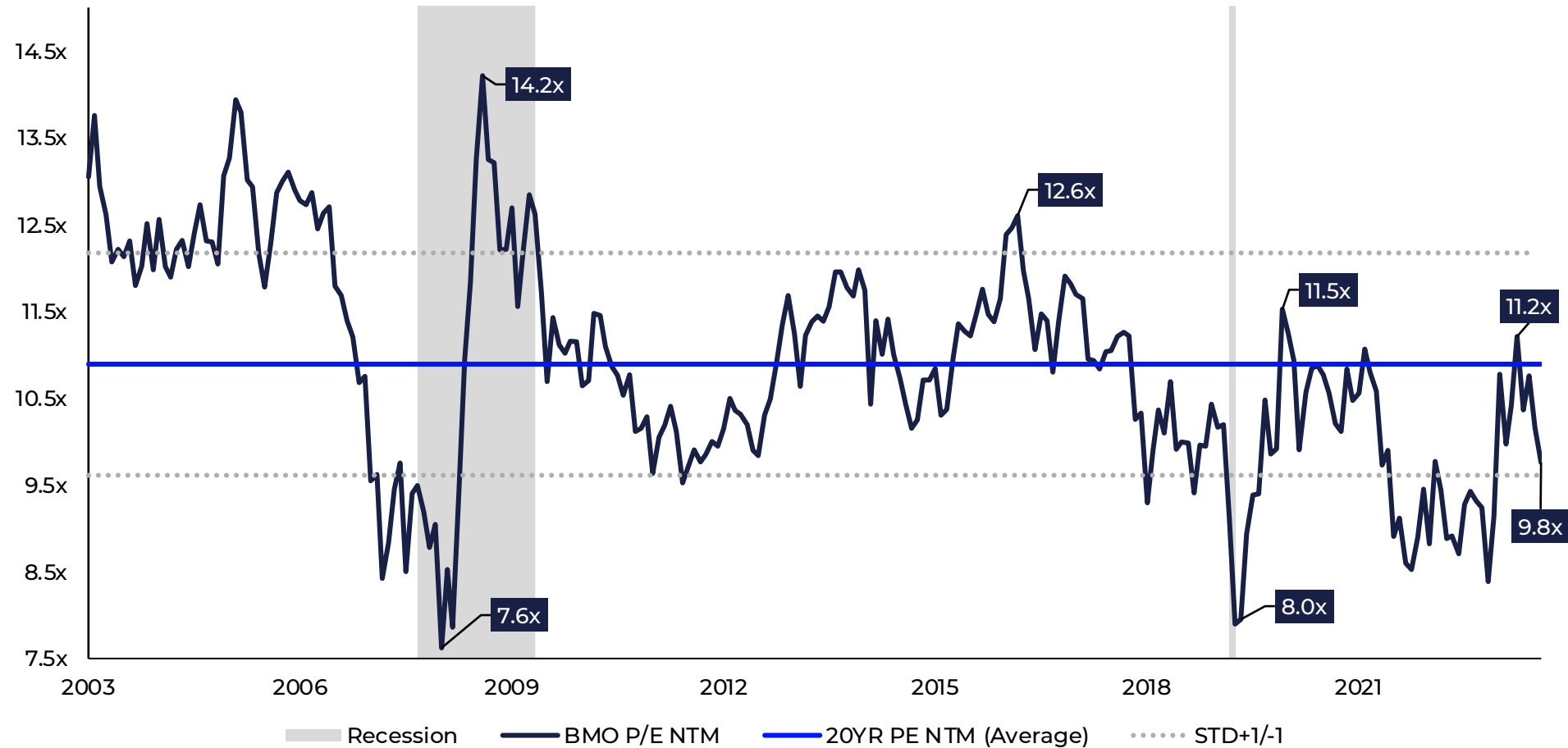


Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

Industry Best – ROEs, PCLs, NIMs

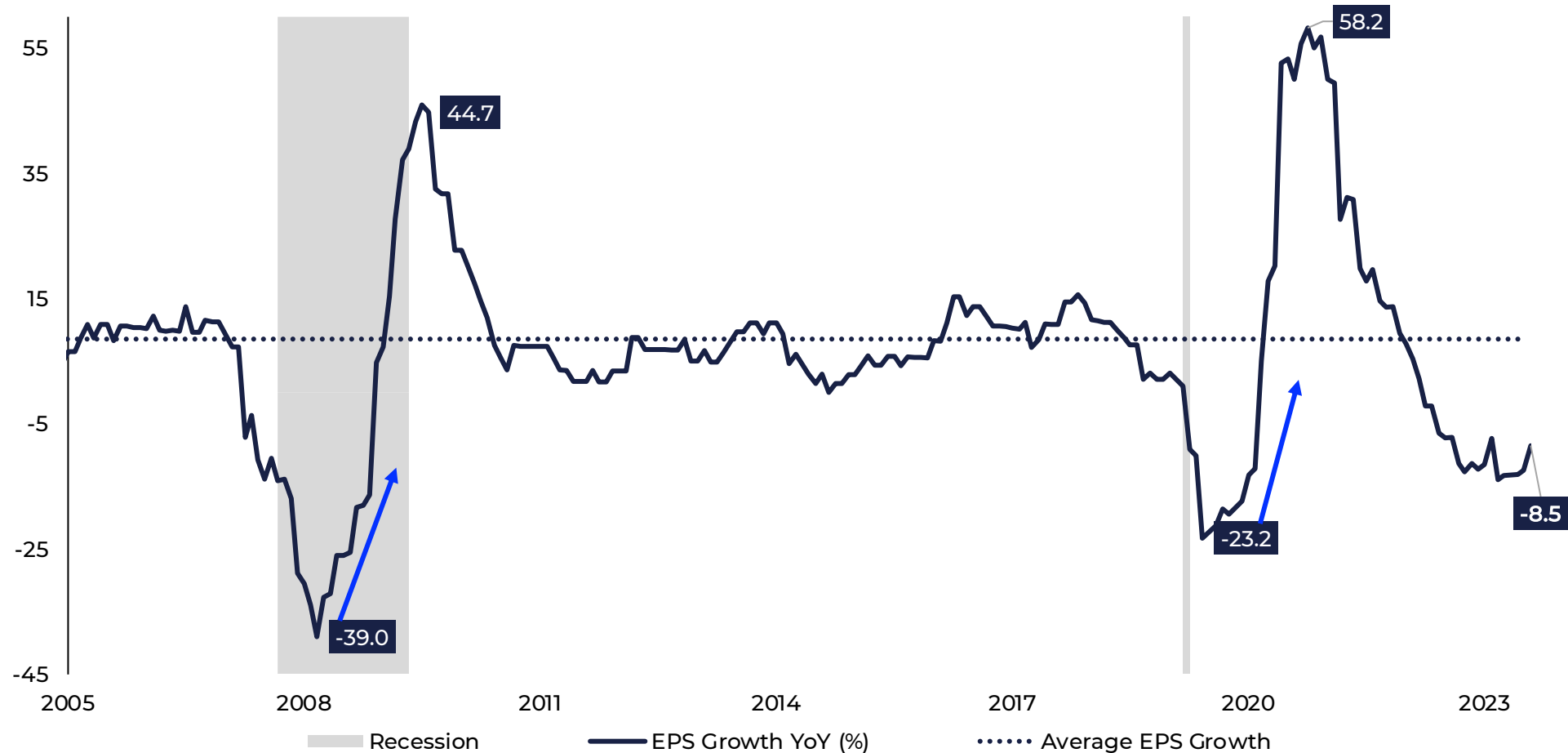


BMO Trading Below 20YR Avg.



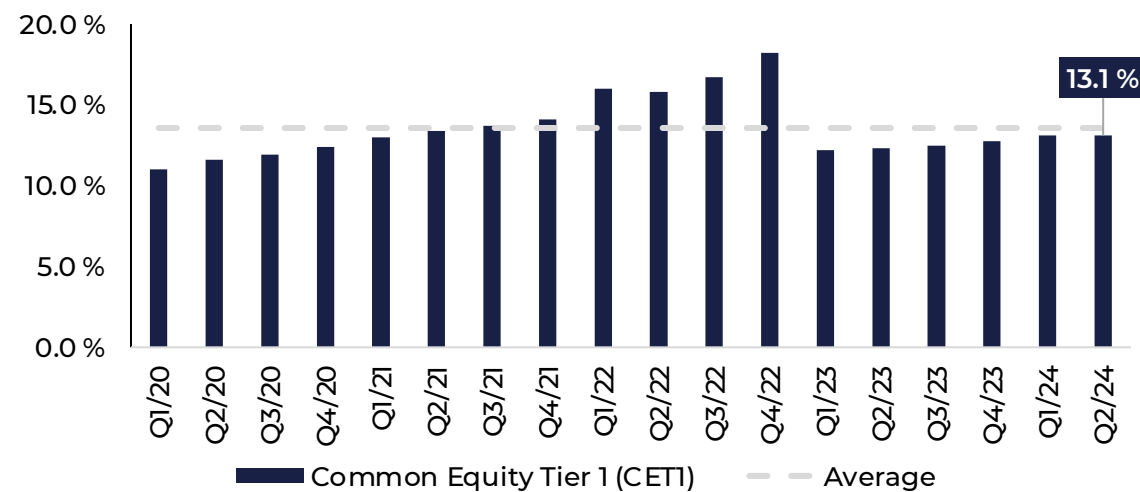
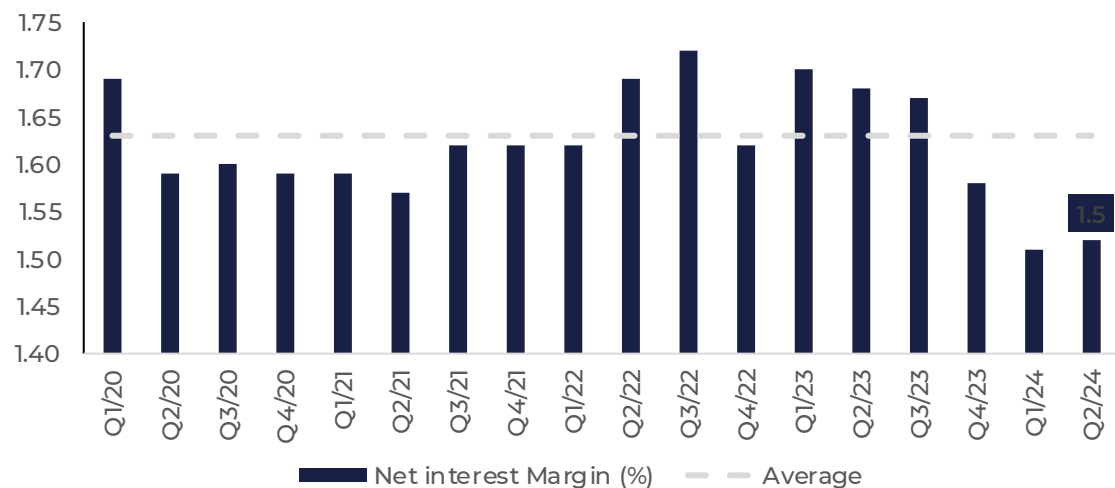
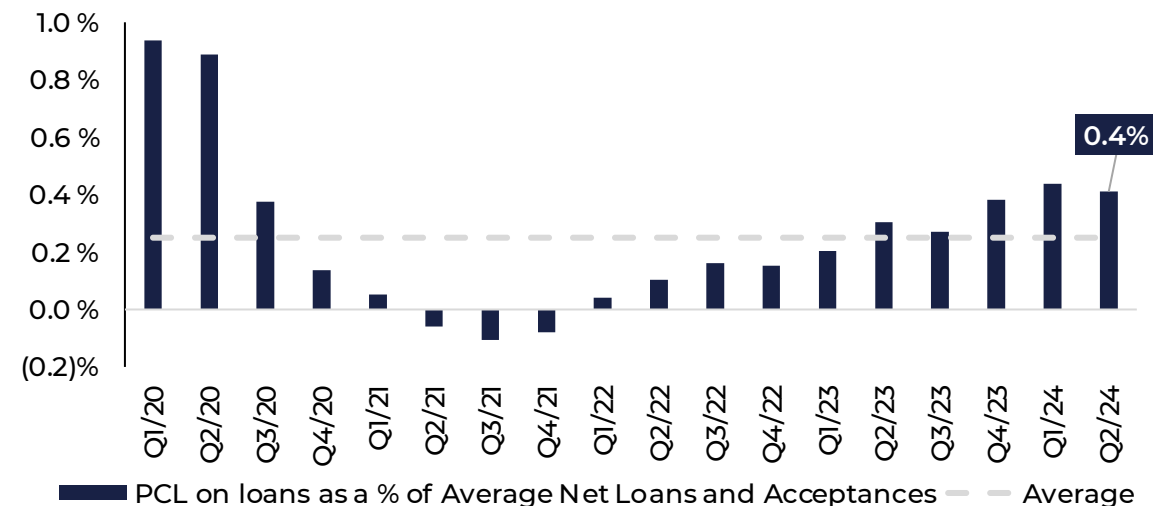
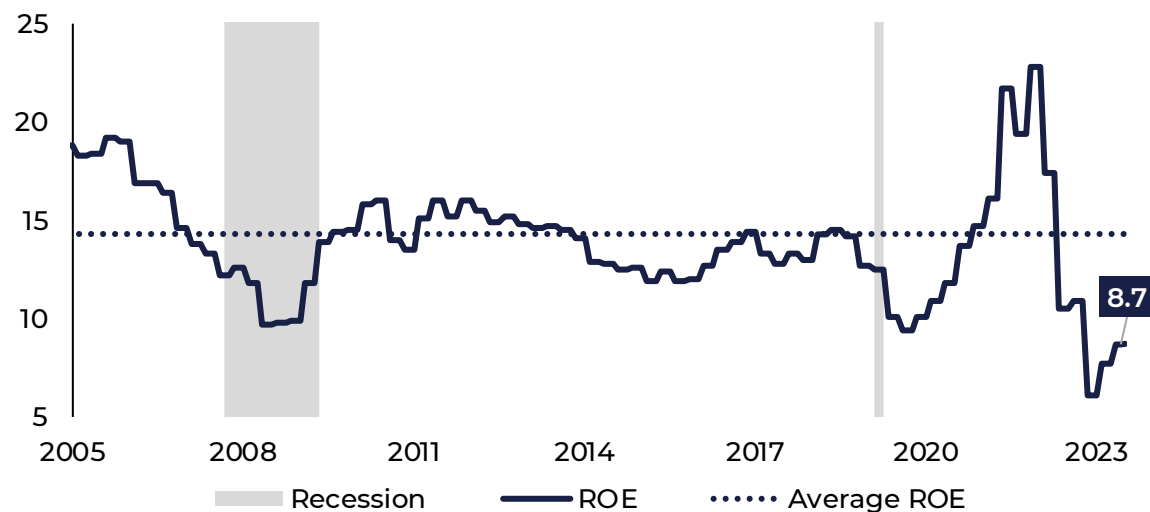
Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of 2024

But...YoY EPS Growth Negative



Source: Bloomberg, Morningstar, Company Reports, Advisor Insights; As of July 31, 2024

The Lowest ROE Among Big 6



Disclaimer: The information provided in this report is for educational and informational purposes only. Advisor Insights does not guarantee the accuracy, completeness, or timeliness of the information provided. Investing in financial markets involves risk, including the potential loss of principal, and past performance does not guarantee future results.

The content of this report should not be construed as personalized investment advice or recommendations. Readers are advised to consult with a qualified financial advisor or investment professional before making any investment decisions. Any reliance you place on the information provided in this report is at your own risk.

Advisor Insights and its affiliates shall not be liable for any errors, inaccuracies, or omissions in the content, nor for any actions taken in reliance thereon. By accessing this report, you agree to indemnify and hold harmless Advisor Insights and its employees from any and all claims, damages, or losses arising from or related to your use of the information provided herein.

The information provided in this report has been obtained from sources believed to be reliable. However, the accuracy and completeness of these sources cannot be guaranteed, and they are used here as general sources of information.