CANADIAN BANKS CONTINUE TO BE A LONG-TERM OPPORTUNITY DESPITE RECENT HEADWINDS

October 2023

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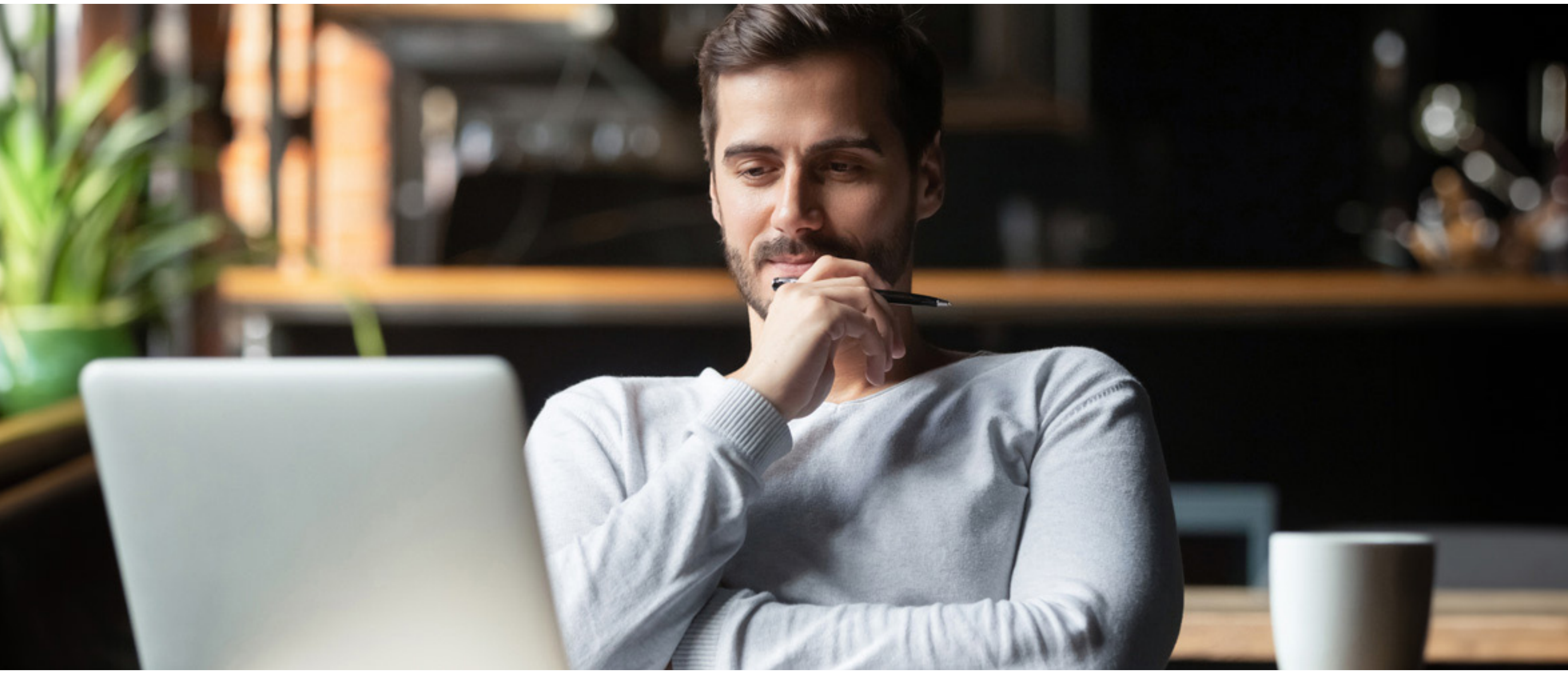

Given their recent quarterly earnings, Canadian banks are clearly facing a multitude of challenges. These include slower loan growth, contracting net interest margins, rising provisions for credit losses, and higher capital requirements. What's more, if a recession does occur Provisions for Credit Losses (PCLs) could increase even more and further reduce earnings for the sector.

However, typically the best time to buy and own banks is during the reserve building phase while valuations are depressed. As once you come through the recession and the reserves start to get released back into earnings the strong earnings growth combined with attractive valuations drives strong stock performance.

In other Canadian banking news, more recently there was the sudden departure of Laurentian Bank's CEO after just three years in the role. The departure came post a strategic review process that ended without a sale of the bank and then a subsequent prolonged IT issue that prevented depositors from accessing their accounts for several days. It isn't clear which event drove the departure, or perhaps the combination of the two, but it is the second CEO in a row to depart Laurentian Bank after a relatively short tenure.

Additionally, RBC recently injected capital into its US subsidiary City National in an effort to lower funding costs and improve profitability in its US business. We view this as a prudent move but doesn't fully offset the pressures US banks continue to face.

Historical performance of Canadian banks in recessions

Bank stocks typically underperform heading into a recession. They act as a proxy for the health of the economy. If the market is looking 18 months into the future, they expect a slowdown in activity from the banks. However, once we're in a recession, banks typically outperform. The following charts show the returns of Canadian banks during and after recessions along with the start date of every recession and crisis over the last 40 years in Canada.

Canadian bank stock performance during 1990s recession — Start date: March 1990

Timeframe	S&P/TSX Composite Banks TR Index	S&P/TSX Composite TR Index
1 year	9.34	-2.12
2 years	13.72	2.38
3 years	7.76	1.22

Canadian bank stock performance during financial crisis — Start date: October 2008

Timeframe	S&P/TSX Composite Banks TR Index	S&P/TSX Composite TR Index
1 year	13.39	-2.30
2 years	12.39	5.92
3 years	8.31	2.65

Canadian bank stock performance during COVID-19 — Start date: March 2020

Timeframe	S&P/TSX Composite Banks TR Index	S&P/TSX Composite TR Index
1 year	17.75	16.27
2 years	24.53	17.04
3 years	13.24	10.89

The information was prepared by CIBC Asset Management Inc. using the following third-party service provider: Morningstar Direct as at August 31, 2023.

In every recession and timeframe analyzed, Canadian bank stocks outperformed the broader S&P/TSX Composite. Why? Markets are forward-looking and typically anticipate an economic recovery even while a recession is underway.

Canadian banks: A strong long-term investment choice

Despite headwinds, bank fundamentals remain solid. Valuations are now at multi-decade lows with high dividends that pay investors to hold through the cycle. As at August 31, 2023, Canadian Banks pay close to a 5.00% dividend yield, in comparison to a 3.55% dividend yield for the broader Canadian market, and 1.68% for the S&P 500 Index. (Indices used as a proxy: Banks — S&P/TSX Banks Index; Canadian market — S&P/TSX Composite.)

Canadian banks are some of the most well-capitalized, safest financial institutions globally, and long-term investors are being paid to hold onto them.

Overall, we maintain ownership of several banks within our portfolios at CIBC Asset Management. Very often, the best time to invest in Canadian banks is in the midst of a recession, and we continue to see medium to long-term strength in the Canadian banking sector.

CIBC Asset Management is committed to providing market and investment insights as well as best-in-class research. We want to help you find the right solutions to guide your investment journey. If you'd like to discuss equity investment opportunities or have questions about your investment portfolio, please reach out to your advisor or CIBC representative any time.

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