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Market Ethos

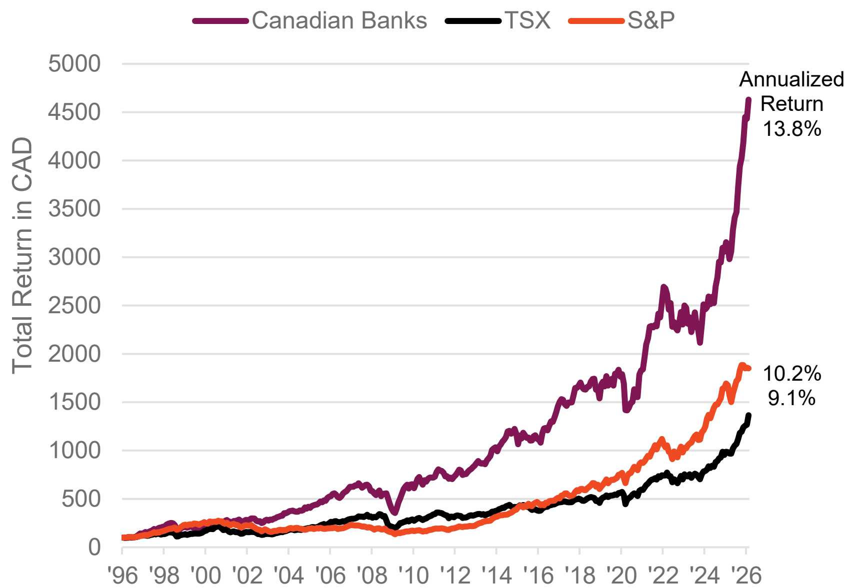
The latest market insights from Richardson Wealth

Craig Basinger

Great Canadian bank run

Thought that title may have gotten your attention. To be clear we are talking about the epic performance run of bank stocks over the past decades, not a rush of customers trying to get back their deposits. Over the past thirty years, Canadian banks have annualized at 13.8%. That is better than the overall TSX at 9.1% and even better than the almighty S&P 500 at 10.2%. Little wonder Canadians have a soft spot in both their hearts and portfolios for Canadian banks.

Who wouldn't love banks?



Source: Bloomberg, Purposee Investments

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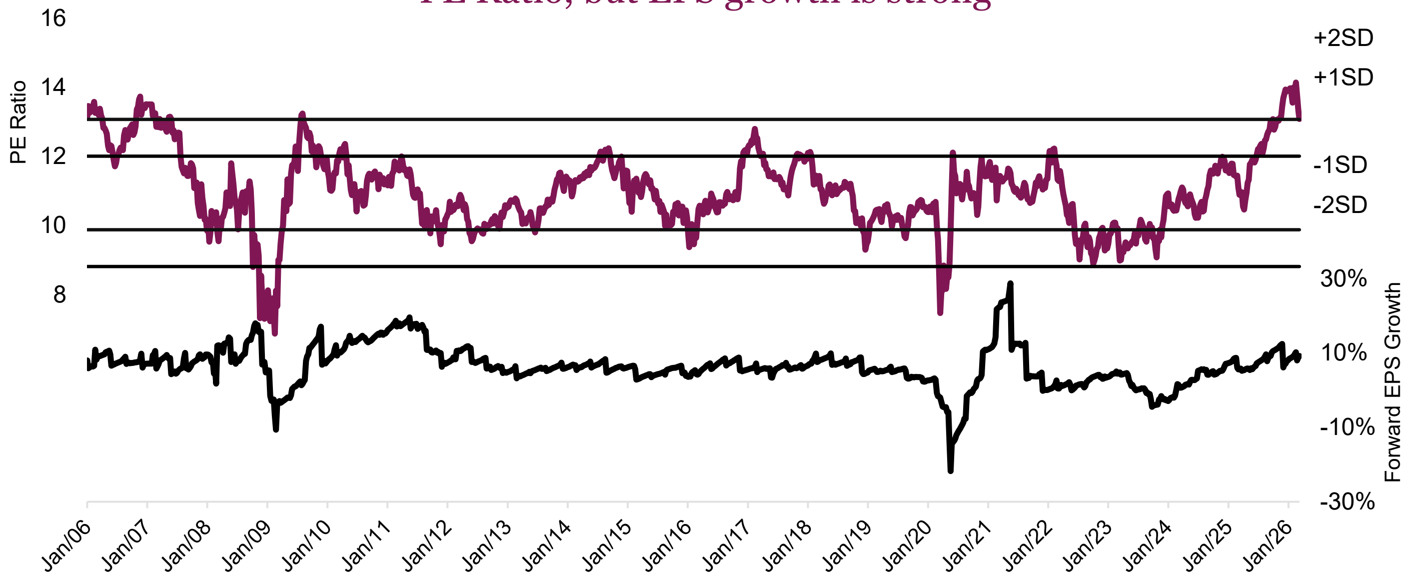
Last year too, banks crushed it, up 45%, based on S&P/TSX Banks index. Sure, gold got most of the attention for helping drive the TSX to an overall 30% gain for 2025, but banks deserve equal credit. Here is the challenge though, bank valuations have certainly been pushed higher. The chart below is the Canadian bank index over the past 20 years. The price to earnings ratio was 14x in February, but has moderated down to 13.1x today. For the banks that is pricey.

Canadian banks are+2 standard deviations above 20 year average PE Ratio, but EPS growth is strong



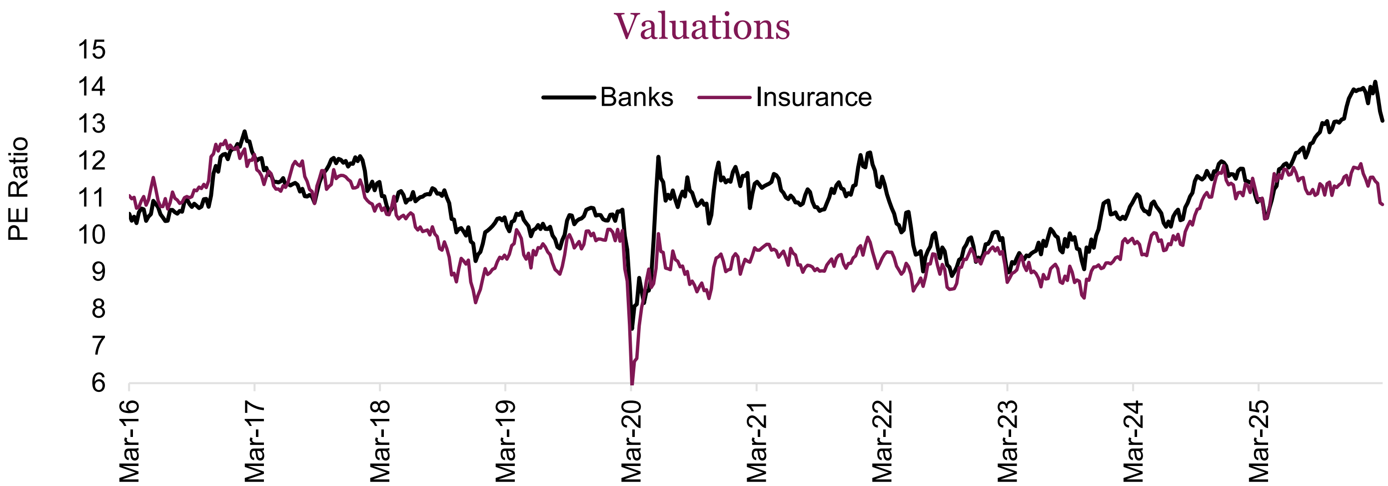
Source: Bloomberg, Purposee Investments

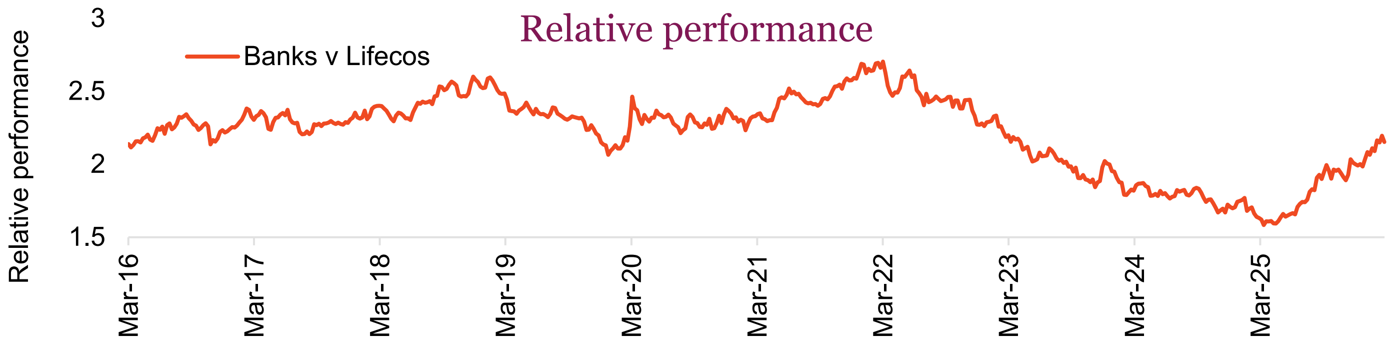
Valuations are just one part of the story though, as earnings growth does somewhat justify the higher valuations. Earnings estimates have been on the rise for the banks and current forecasts have earnings growing at just under 10% looking out over the next 12-month period. Still at 13.1x, certainly paying up for this growth.

Banks are feeling some tailwinds that have driven share prices higher. Net interest income is strong thanks to higher yields, and loan losses remain contained. Plus, capital markets and wealth are doing well. Housing and real estate is a bit of a laggard. With the rise in share prices, how much of the good news is already priced in? We would say a healthy amount.

Insurance

There does appear to be better value elsewhere in the Canadian financials sector. For the TSX, financials carry a 31% weight, 21% is banks and the remainder is split between insurance and capital markets. The valuation spread between banks and insurance is also of interest.

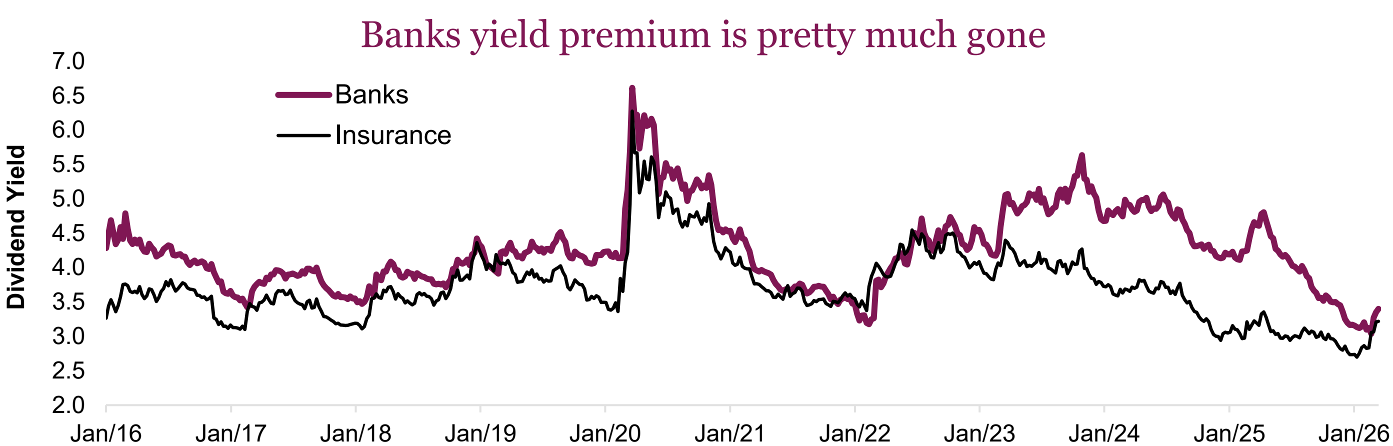




Source: Bloomberg, Purposee Investments

The stronger relative performance of the banks versus insurance sub-indices for the TSX has led to a rather high historical valuation gap. Insurance may not be cheap on an absolute basis but certainly offers better value relative to banks. Many of the underlying insurance companies also have similar growth profiles to the banks.

And for those lovers of dividends (hopefully all of us because we are Canadian after all), the higher dividend yield offered from banks appears to have almost disappeared relative to insurance.



Source: Bloomberg, Purposee Investments

Final thoughts

Obviously Canadian portfolios pretty much always have some exposure to banks, it is simply such a big part of our market. And the dividends are also an attractive attribute. Plus, the insurance space is a bit higher beta historically. But given valuations, growth and current dividend yields, we are a bit more positive on insurance and a bit more cautious on the banks.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.