Canadian Bank Stocks:

Potential Strong Market Performers after a Recession

Overall financial markets have been adversely impacted by deteriorating credit conditions originating from the US housing market sub-prime lending issues as well as increasing unemployment numbers. Economic indicators suggest that the United States has entered into a slowdown and there is a very strong possibility that the economy has already entered into a recession.

Canadian financial services stocks have been adversely impacted during the last eight months. Despite the significant downturn in financial services stocks, examination of the last 6 US recessionary periods suggest that Canadian bank stocks have outperformed the TSX in each of these periods as the economy emerges from the recession.

Canadian Bank Sector Performance following the six most recent US Recessions:

Recession Periods	Investment Performance One Year after the Mid Point of the Recession	
	TSX	Banks
March 1980 – November 1982	36%	51%
May 1968 – November 1970	18%	22%
July 1972 – March 1975	3%	15%
April 1978 – March 1979	23%	31%
November 1988 – March 1991	9%	32%
July 1999 – November 2001	-14%	-6%

Source: TD Newcrest

Several traditional valuation metrics such as dividend yields, price to book and price/earnings ratios suggest that the current valuation of Canadian Bank stocks already reflect difficult recessionary conditions. It is impossible to predict how long or deep the current slowdown will be. Typically North American stock markets rally in advance of an economic recovery by between four and six months. Canadian Bank stocks could be among the leading market performers emerging from this period.

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