Cash in on the Oil Rout With Toronto-Dominion Bank

Description

It may seem a little strange to be talking about investing in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and the oil rout in the same article. However, TD is set to benefit from the oil rout in a way that many other Canadian banks can't. I believe this makes it a must-have addition to any portfolio.

Now what?

The oil rout has created a form of economic stimulus in the U.S. that no Federal Reserve policy ever could. Oil and its distilled derivatives fuel modern economic activity in every major global economy. The United States, the world's largest economy, is particularly dependent on crude.

Unlike the Fed's much-vaunted quantitative easing stimulus program that many economists, including former Fed Chairman Alan Greenspan, have called a failure, cheaper oil benefits all parts of the economic chain. This ranges from the consumer to manufacturers, miners, freight services and retailers with cheap oil being a key input to their operations.

How does that impact TD?

You see, TD has the largest exposure of any Canadian bank to the U.S. economy, with around 30% of its net earnings derived from its U.S. banking operations. These operations form a key plank in its growth strategy, giving it a distinct edge over it's the majority of its peers.

The Canadian financial services market is heavily saturated, leaving banks like **Canadian Imperial Bank of Commerce** that are focused on the domestic market with little-to-no opportunities for real growth.

However, there are considerable growth opportunities in the U.S., as it is the largest financial services market globally. The economic stimulus created by low oil prices will significantly boost U.S. economic activity, leading to greater demand for banking products, including credit.

The positive impact this is having on TD's bottom line can be seen in its first quarter 2015 results. For that period, net income from its U.S. retail banking business shot up a healthy 23% quarter over quarter and 27% year over year because of strong credit growth and a substantial increase in net interest income.

I also expect this strong growth to continue, with the U.S. GDP forecast to expand by 2.8% this year and by 2.5% in 2016, well above the 2% expected for Canada.

The better-than-expected economic recovery in the U.S. continues to drive a resurgent U.S. dollar that has appreciated in value by over 21% during the last year. With the Canadian dollar weaker because of the oil rout, the strong U.S. dollar will also help to boost TD's bottom line.

So what?

TD has been one of the most impressive dividend-growth stocks, with its dividend boasting an incredible compound annual growth rate of almost 12%. The growth potential represented by a resurgent U.S. economy has the potential to significantly boost TD's earnings growth, which bodes well for further dividend hikes. For these reasons, I believe the bank should be a core holding in any portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/10/02
Date Created
2015/03/31
Author
mattdsmith