



One Key Reason Why Now Is the Time to Invest in Toronto-Dominion Bank

Description

Weak domestic economic growth, the oil rout, and fears over the sustainability of Canada's frothy housing market have caused analysts to revise their outlook for Canada's banks. Many are now expecting lower earnings growth over the course of 2015 and 2016, yet despite this I believe that **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) will continue to generate solid earnings growth for the foreseeable future.

Now what?

One of Toronto-Dominion's most important advantages is its significant U.S. retail banking footprint that gives it access to one of the world's largest financial services markets. In addition, over the last two years the U.S. economic recovery has really picked up steam and is expected to continue growing strongly.

Over the last years the U.S. GDP has expanded on average by over 2% and continues to grow. U.S. unemployment is now hovering at its lowest level since mid-2008 when the global financial crisis took hold; the May 2015 unemployment rate at 5.5%, or 80 basis points lower year over year. U.S. wages have also continued to steadily rise over the last two years and, when coupled with lower gasoline prices, has increased household discretionary income. This increase in discretionary income is triggering greater consumption and sustaining a steady recovery in the U.S. housing market, both of which are fueling further demand for credit.

Toronto-Dominion is well positioned to take advantage of this as one of the 10 largest U.S. banks. At this time, its U.S. retail banking business contributes over a quarter of its net income, and a stronger U.S. economy will drive further bottom-line growth for the bank and reduce its dependence on a faltering Canadian economy.

Its U.S. retail banking franchise delivered some solid second-quarter 2015 numbers, and key among these was a 15% year-over-year increase in net interest income on the back of solid loan growth. For that period residential mortgages shot up 15%, while total personal loans grew by an impressive 18% and business loans spiked a massive 32%. This last point is an important achievement because loans

to small and medium businesses is one of the most lucrative segments for retail banks.

I expect this strong growth in Toronto-Dominion's U.S. business to continue because the outlook for the U.S. economy is positive despite the GDP contracting during the first quarter. In fact, U.S. 2015 GDP is expected to expand by 2.9%, more than double the forecast for Canada.

Meanwhile, sharply lower crude prices will help to sustain this growth as they create a form of broad-based economic stimulus that the Fed could never have dreamed of because oil and its derivative products are key inputs for economic activity right across the economic value chain.

So what?

Clearly, Toronto-Dominion is set to benefit from a stronger U.S. economy and this will reduce its dependence on a weaker Canadian economy, which is reeling from the collapse of oil prices. Indeed, I expect to see its U.S. business continue to contribute a greater share of loan growth, revenue, and net earnings over coming quarters. This will allow it to continue rewarding patient investors with further dividend hikes and push its stock price ever higher.

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