Cash In on the Strong U.S. Economy With Toronto-Dominion Bank

Description

While there are signs that Canada's resource-dependent economy is faltering under the weight of the commodities crash, the U.S. economy continues to surge ahead. The recent rate hike by the Fed, along with a slew of positive economic data, indicates that the U.S. economy is continuing to grow.

This highlights the importance for Canadian investors to diversify their portfolios away from Canada in order to take advantage of better economic conditions south of the border. One of the best ways to do this without leaving the comfort of Canada is by investing in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Now what?

You see, Toronto-Dominion is among the 10-largest banks operating in the U.S. and generates about a fifth of its net income from the country.

More importantly, Toronto-Dominion's operations in the U.S. continue to experience strong growth.

For the fourth quarter 2015, loans in its U.S. banking business were up by 21% year over year, while deposits jumped by a healthy 12% for the same period, triggering a respectable 6.5% bump in the bottom line. I expect this solid growth to continue as a number of indicators highlight that the U.S. economy will continue to perform well for the foreseeable future, despite the uncertainty surrounding commodities and emerging markets.

Another important aspect of its U.S. business is the ongoing focus on cost control, which saw adjusted expenses fall by 2% year over year for the fourth quarter; there was also a solid improvement in credit quality. Both of these factors will certainly help to boost the profitability of its U.S. business.

The bank will also benefit from the recent rate hike by the Fed. This is because a higher official rate will cause interest rates to rise across the U.S. banking industry, helping to boost the net interest margin, or profitability, of Toronto-Dominion's U.S. operations.

The strong U.S. presence also helps to offset the risks posed to its operations by a Canadian economy, which many analysts expect to perform poorly in 2016 because of the impact of the collapse in commodities prices.

In fact, I don't expect the bank to experience notable growth in its Canadian business because diminishing economic growth and rising unemployment, which have occurred because of the oil rout, are set to impact consumer confidence and demand for credit.

So what?

Of all the major Canadian banks, Toronto-Dominion offers the best exposure to the resurgent U.S. economy, and this will translate into a nice bump in earnings for the bank in the coming year.

U.S. exposure will also help to support Toronto-Dominion's impressive history of dividend growth. Its dividend rose by 14% in value in 2014 alone to give it an attractive yield of almost 4%. Impressively, the dividend has a payout ratio of a mere 44%, indicating that there is plenty of space for Toronto-Dominion to continue hiking its dividend when the circumstances warrant.

This dividend will continue to reward investors as they wait for the bank's many initiatives, including its focus on boosting its U.S. presence, to increase its earnings and cause its share price to appreciate.

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