A Stronger U.S. Economy Makes Toronto-Dominion Bank a Buy

Description

Investors and regulators remain worried about the outlook for Canada's housing market, and, along with tighter regulation and less growth opportunities, this has created concerns over the outlook for Canada's banks.

Nonetheless, there is one bank that is not only well positioned to weather this storm, but it also benefits from a stronger U.S. economy, giving it superior growth prospects to its peers. This is Canada's second-largest bank by assets: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Now what?

Toronto-Dominion has invested in building a considerable U.S. presence where it is now ranked as the 10th largest retail bank by assets. It has also–through a series of acquisitions–established a sizable wealth management business in the U.S. This makes it a superior investment to its Canadian peers, especially **Canadian Imperial Bank of Commerce** and **National Bank of Canada**, which are predominantly reliant on the domestic market to generate earnings growth.

You see, Toronto-Dominion already derives 30% of its net income from its U.S. retail banking business, and this will continue to grow in coming years.

It is believed Trump's ascension to the presidency and his planned fiscal stimulus will drive significant U.S. economic growth. This coupled with his plans to boost wages, particularly for low- and middle-income earners will trigger a rise in consumption and demand for credit.

Any uptick in the demand for credit will be good news for U.S. banks.

Toronto-Dominion is already benefiting from an improving U.S. economy and growing consumer confidence with fourth-quarter 2016 net interest income rising by just over 10% compared to a year earlier. This was driven by a marked increase in credit card and auto loans, which are among the most profitable lending segments for banks.

The good news for Toronto-Dominion doesn't stop there.

Trump's fiscal stimulus will also spark greater economic growth and subsequently inflation-fueled interest rate hikes, which will boost the net interest margins of banks operating south of the border.

Then there are Trump's plans to reduce regulation and dismantle the Dodd-Frank banking regulation, which many pundits believe will reduce costs and make it far simpler for U.S. banks to do business.

These factors bode well for U.S. banks, including Toronto-Dominion's U.S. business, to be able togrow margins and reduce costs, making them significantly more profitable. This couldn't come at abetter time for Toronto-Dominion; the growth opportunities in Canada's smaller, saturated financialservices market is significantly limited.

Any uptick in U.S. growth should also see the volume of non-performing loans fall, thereby reducing the amount of provisions that Toronto-Dominion must set aside in proportion to the value of its loan book. This will also help to boost the profitability of its U.S. business and ultimately–in conjunction with the other factors discussed–will give its overall bottom line a healthy bump.

So what?

It is easy to see just how attractive Toronto-Dominion is as an investment because of its considerable exposure to the now resurgent U.S. economy. Let's not forget that the U.S. represents one of the world's single largest financial services markets, meaning that there are plenty of growth opportunities available.

In conjunction with the plans of the incoming Trump administration to increase economic growth and overall wealth, this will reduce Toronto-Dominion's dependence on Canada and give its bottom line a healthy boost. That makes it likely that it will be able to continue rewarding investors through further dividend hikes on top of its already impressive history of dividend increases. Toronto-Dominion offers a tasty 3% yield.

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Author
mattdsmith