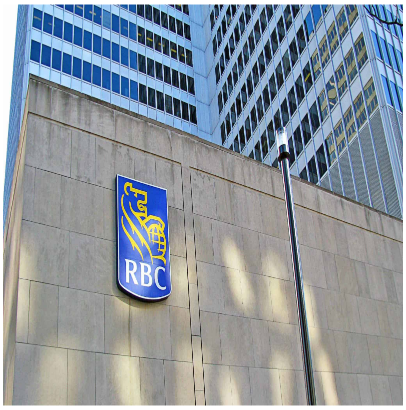

Toronto-Dominion Bank and Royal Bank of Canada Are Still Attractive After the Rate Increase

Description

The Bank of Canada elected to raise the benchmark interest rate by 0.25% on January 17. All six commercial banks in Canada had projected the central bank would move forward with the rate hike. The banks increased prime lending rates beforehand in anticipation of the upward move.

Although the major banks came to a consensus, there was considerable debate among analysts over whether the central bank would hike rates. Ongoing NAFTA negotiations, new mortgage rules that could cool Canadian housing, and record-high Canadian household debt were all cited as causes for concern ahead of the meeting. Strong economic data in the form of an inflation rate of 2.1% in November, a positive jobs report in December, and an improved business outlook forced the hand of the "data dependent" Bank of Canada.

The Bank of Canada maintained its cautious tone even after hiking rates. The central bank warned that "continued monetary policy accommodation will likely be needed to keep the economy operating close to potential and inflation on target." Canadian economic growth is expected to drop below 2% by 2019. With this in mind, we should check up on two top Canadian banks to see how both will respond to the rate hike.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank stock has been mostly flat so far in 2018 as of close on January 18 — up 0.12%. TD Bank stock soared after the previous rate hike in September, buoyed by record third-quarter 2017 earnings. Higher rates could also be good news for larger institutions that are seeing credit growth tighten after new OSFI mortgage rules were implemented in January.

Prior to the rate hike, TD Bank economist Dina Ignjatovic was skeptical that the central bank would pursue aggressive rate increases in 2018. "A rate hike does not necessarily mean that the bank will embark on a rapid tightening cycle," she said. "The bank must be careful in how quickly it raises so as to not derail the economy."

TD Bank had an impressive 2017, and although the economy is expected to slow, there is reason for major optimism in 2018. With the largest U.S. footprint of any Canadian bank, TD Bank will stand to benefit from tax reform that will see the corporate tax rate slashed from 35% to 21%.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank stock has climbed 4.1% so far in 2018. Shares have increased 13% year over year. Royal Bank was the first of the major Canadian banks to raise its fixed mortgage rate ahead of the Bank of Canada meeting.

Royal Bank also responded well to the September 6, 2017, rate hike. Shares have climbed 17% since the decision to hike rates a second time last year. Royal Bank CEO Dave McKay also warned that the possibility of NAFTA being terminated was rising to start 2018, which is obviously cause for caution going forward. In its fourth-quarter 2017 results, Royal Bank saw its profit rise 12% year over year.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/25
Date Created
2018/01/20
Author
aocallaghan