Here Is Why Toronto-Dominion Bank (TSX:TD) Stock Is Still a Buy Heading Into the Summer

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock reached an all-time high of $76.45 in late May, following the release of its second-quarter results. Canadian bank stocks have performed well after a good earnings season, but there are economic storm clouds on the horizon. The chief concern in the near term is the imposition of tariffs between the United States and Canada, and looking long term, GDP growth is expected to slow in Canada and across the developed world.

This should not deter investors from scooping up TD Bank stock today. Let's go over a few reasons why.

Big banks are not at risk from tariffs — for now

In a research note, TD bank was fairly optimistic in its analysis of the impact of steel and aluminum tariffs going forward. "These tariffs are likely to have a very minor direct effect on economic activity, jobs, and consumer price inflation," the bank concluded in said note.

This is good news in the short term, but investors may sweat over the possibility of auto tariffs being introduced by the Trump administration this year. A 25% tariff on autos could deal significant damage to those sectors in the U.S. and Canadian economies, with some industry leaders even forecasting a recession if President Trump follows through on his threats.

Looking long term, the Bank of Canada projected that "uncertainty" over trade could see Canadian exports fall by 1% by the end of the decade. It also estimated that continued trade disputes could drain more than 2% of business investment in Canada going forward.

TD Bank has much to gain from improved U.S. economic activity

TD Bank has the largest U.S. footprint of any of the Big Six Canadian banks. This was a point CEO Bharat Masrani drove home earlier this year in his calls for an ease on trade tensions between the close North American allies.

In its second-quarter report, TD Bank saw adjusted profits in its U.S. Retail banking segment rise 16% year over year to $1.05 billion. Excluding the bank's investment in TD Ameritrade, adjusted net income was up 15% to $857 million. Earnings were boosted by growth in loan and deposit volumes, higher margins, and it got a boost from the corporate tax cut the Trump administration pushed through last year.

Banks expected to overcome slower mortgage growth due to higher rates

Most of the top banks warned of slower mortgage loan growth in the second half of 2018 during the previous earnings season. TD Bank saw an increase in its margins south of the border and in Canada due to higher interest rates. On June 13, the U.S. Federal Reserve hiked its interest rate by 0.25%. The Bank of Canada has been dovish since its January rate hike, but odds are it will also move to raise rates in July.

Banks will be able to take advantage of superior loan margins before upping deposit rates in coming quarters. All of these factors are positive for TD Bank heading into the summer.

Is the stock a buy right now?

TD Bank is hovering around all-time highs, which may prompt investors to wait for an entry point. However, the S&P/TSX Composite Index has historically performed well in the second half of the year. Those that missed the shot to buy-low in mid-April may want to start stashing it as we near another rate hike.

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Date
2025/07/02
Date Created
2018/06/16

Author
aocallaghan