This Toronto-Dominion Bank (TSX:TD) Forecast Should Inspire Investors to Prepare for the Worst

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has justifiably performed well following its solid second-quarter earnings, which were released in late May. Adjusted profit hit $3.06 billion compared to $2.56 billion in the prior year on the back of improved margins due to rising rates, and its U.S. operations got a boost from tax reform. Shares were up 4.8% month over month as of close on June 29.

Back in the spring, TD Bank CEO Bharat Masrani warned that a trade war could plunge economies all over the world into recession. The ongoing trade spat between the United States and Canada is a reminder of how this could hit Canadians right here at home. President Trump said recently that he does not expect NAFTA to be resolved until after the U.S. midterms in November. This is not a comforting development from a Canadian perspective.

NAFTA negotiations appeared to be leading up to a deal in the spring. President Trump allowed exemptions on steel and aluminum tariffs for Canada and Mexico until June. This heightened pressure failed to net a deal, and the Trump administration elected to impose the tariffs starting on June 1. Canada has imposed retaliatory tariffs on $12.6 billion of U.S. goods.

These conditions made for a choppy final week of June for global stock markets. Unfortunately for investors, the worst may be yet to come.

The United States is currently considering a plan to impose auto tariffs that could be as high as 25% under section 232 of the 1962 Trade Expansion Act. This was the same legislation used to impose steel and aluminum tariffs under "national security" grounds. Such a move would have far-reaching implications for the global economy. The European Union has warned that it will impose retaliatory tariffs worth up to $300 billion in response.

Analysis from TD Economics has forecasted that the move could have devastating consequences for the Canadian economy. The note, which was published on June 18, projected a short recession and also forecast that 2019 growth would be slashed by 0.5% due to the stagnation. Ontario, where the Canadian auto sector is strongest, would be hit the hardest. Senior economist Brian DePratto also projected a net job loss of 160,000 and likened the impact to the 2014-2015 oil shock.

The investigation into the auto industry by the Trump administration was slated to extend into February, but it appears that President Trump would prefer to act quickly. This is no accident ahead of the crucial U.S. midterms. Donald Trump upset Hillary Clinton in the 2016 election with economic nationalism serving as the bedrock of his campaign. Rather than wave a potential NAFTA deal as a triumph, it appears that the GOP may look to the ongoing trade war to provide a rallying cry.

With this in mind, investors need to prepare for the possibility that auto tariffs will take effect in the fall or winter of this year. This would likely plunge Canadian markets into another period of volatility.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Date
2025/07/19
Date Created
2018/07/03
Author
aocallaghan