2 Reasons Toronto-Dominion Bank (TSX:TD) (USA) Stock Could Rise Above $80 This Summer

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock was up over 3% in 2018 as of close on July 18. Shares were still up over 15% from the prior year. TD Bank has been one of the top performers among the largest Canadian financial institutions, but has also been somewhat static in recent months.

In the late summer of 2017 TD Bank began a run with its peers that saw the stock gain more than $10 in a short period. Historically the TSX has performed well in the latter half of years. TD Bank is currently hovering around its all-time high, but it may still be an attractive add today. Let's explore why.

Another rate hike should boost margins

The Bank of Canada rose the benchmark interest rate to 1.50% on July 11. This was the second rate hike in 2018 so far, but the central bank appeared to signal a dovish path going forward. Governor Stephen Poloz has raised housing and trade policy as areas of concern in Canada.

The big banks have wrestled with historically low interest rates for nearly a decade now. The current path of rate tightening is expected to slow loan growth, but this will also help profit margins that have been tenuous over this stretch. In the second quarter, TD Bank realized a 17% year-over-year increase in Canadian Retail profit and a 16% jump in its U.S. Retail Banking segment. In both cases, the performance was boosted by higher margins, as the U.S. Federal Reserve has also committed to rate tightening over the past two years. Net interest margin in the second quarter was 2.91%, an increase of 10 basis points.

TD Bank and its peers have projected that loan growth, particularly in the mortgage book, will slow as rates rise. However, margins are expected to continue to improve which should shore up earnings.

U.S. tax reform continues to reap rewards for banks

Back when the Trump administration passed the *U.S. Tax Cuts and Jobs Act,* I recommended TD Bank as a great long-term option. TD Bank leadership has been adamant that U.S. tax reform will have a positive impact on earnings over the long term. Currently TD Bank boasts the largest U.S. footprint out of any Canadian bank. The reduction in the corporate tax rate form 35% to 21% has also been a huge boost to major banks south of the border.

JPMorgan Chase & Co. released its second-quarter results on July 13. The bank posted a record second-quarter profit of $8.32 billion, which represented an 18% jump from the prior year. **Goldman Sachs Group Inc.** also saw second-quarter profit surge 40% to $2.57 billion. U.S. bank stocks have underperformed in 2018 thus far with the gains from tax reform largely priced-in from the prior year.

TD Bank will continue to reap the benefits of the gigantic tax reform package. Investors should not be afraid to add TD Bank even at its current price. The stock also offers a very solid dividend of $0.67 per share, representing a 3.3% dividend yield.

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