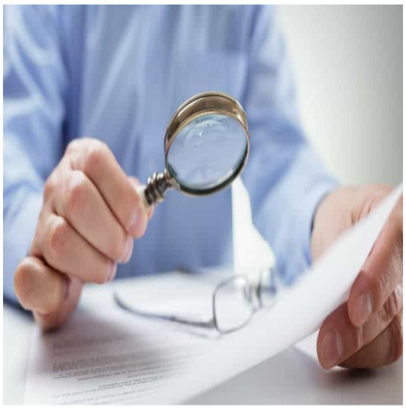

This Could Cause Canadian Bank Stocks to Soar in the Coming Years

Description

Back in April I'd discussed the warning from **Royal Bank of Canada** (TSX:RY)(NYSE:RY) CEO Dave McKay that Canada was suffering from investment flight in the wake of U.S. tax reform. Pressure has mounted from the corporate world for Canada to tweak its tax policy in order to improve its "competitiveness" on the world stage.

The Organization for Economic Co-operation and Development (OECD) recently chimed in on the topic of Canadian tax policy. The OECD praised economic growth and measures to stabilize the housing market, but warned that the government should move to reform taxes in order to boost competitiveness. According to the document, NAFTA uncertainty has exacerbated this issue.

In the most recent Ontario election, the Doug Ford-led Progressive Conservative party made tax reform a key part of its platform, pledging a marginal reduction in the corporate tax rate – from 11.5% to 10.5%. Like the Donald Trump GOP campaign in the United States, the PCs paired a focus on lower taxes and deregulation with a populist pitch that proved extremely effective.

This is important to note ahead of the 2019 Canadian federal election. Investors should expect the economy to take centre stage, and the push for tax reform is a good bet to make it to the forefront. This prospect may be an exciting one for investors, at least in the short term.

U.S. corporate earnings have surged after tax reform dropped the corporate rate from 35% to 21% south of the border. Indexes surged to record highs in 2017 on the expectation that tax reform would inevitably be pushed through by a GOP-controlled House, Senate, and Executive.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has climbed 18.5% year over year. TD Bank boasts the largest footprint of any Canadian financial institution. In the second quarter, its U.S. Retail banking segment reported adjusted net income of $1.05 billion, which represented a 24% increase from the prior year. TD Bank achieved these results on the back of strong deposit and loan growth, higher margins from rising rates, and the lower corporate income tax rate.

Canadian Finance Minister Bill Morneau conceded in a recent interview that Canada was struggling with competitiveness in the wake of U.S. tax reform. He vowed to address this issue in the fall fiscal update. The International Monetary Fund (IMF) has also warned that Canada is at risk of losing more investment. An EY survey conducted this year found that 61% of executives polled said that Canadian policies were having a negative impact on their businesses. A majority also said that U.S. tax reform had hurt operations in Canada overall.

It is difficult to predict what form tax reform would take in Canada. A new election year is nearing, so party platforms should begin to take shape in the coming months. The rightward lurch in economic policy across the developed world has already reared its head in Ontario. A substantive tax reform pledge could prove to be a significant boost for Canadian financial stocks, but investors will want to pay close attention to the political landscape. Just as in the U.S., it will be a case of buy the rumour sell the news.

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
2025/09/11
Date Created
2018/07/27
Author
aocallaghan