Buy This Top Canadian Bank Stock if You Want to Take Advantage of a Booming U.S. Economy

Description

In December 2017, I'd recommended investors jump into **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock after the passage of the U.S. Tax Cuts and Jobs Act. The bill in question slashed corporate taxes in the United States from 35% to 21% in a move that was mostly lauded by major bank executives. TD Bank stock is up over 7% since December 22, 2017.

U.S. tax reform ushered in a slew of buybacks from top corporations. Indeed, share buybacks are projected to reach $1 trillion by the end of 2018. Stock buybacks in the second quarter of 2018 were up 57% from the prior year and buybacks in the tech sector soared 130%. Earnings in the United States have also been extremely impressive in 2018. Among the Standard & Poor's 500 companies, second-quarter sales rose on average by 12% and earnings climbed 24% from the prior year.

Major banks in the U.S. have raked in profits so far in 2018. On August 23, the Federal Deposit Insurance Corporation (FDIC) reported that U.S. commercial banks and savings institutions reported a record $60.1 billion in profits in the second quarter of 2018. This was up 25.1% from the second quarter of 2017.

The U.S. economy has also broadly performed well on the back of higher consumer spending and improved business investment with the cash infusion received from tax reform. In late August, the U.S. Commerce Department said that GDP increased 4.2% on an annualized rate for the April-June quarter. This represented the fastest rate of growth since the third quarter of 2014. For the full year, the U.S. economy is expected to report growth at a 3% clip.

Why TD Bank?

TD Bank boasts the largest U.S. footprint out of any of the major Canadian banks. It released its third-quarter results on August 30. One of its third-quarter adjustments included a tax benefit of $61 million after tax, which added up to $0.03 per share. TD Bank was forced to absorb a one-time tax payment in the first quarter, but its leadership rightly predicted that tax reform would be a net positive going forward.

The bank's U.S. Retail banking segment reported net income of $1.14 billion and adjusted net income of $1.16 billion, which represented a year-over-year increase of 27% and 29%, respectively. Earnings were powered by loan and deposit volume growth, improved margins, and the boost from tax reform. Percentage-wise, this was the largest year-over-year increase across TD's major segments.

TD Bank last announced a quarterly dividend of $0.67 per share, representing a 3.2% dividend yield. This yield is one of the more modest compared to its peers, but TD has made up the difference as shares have performed exceptionally well over the past year. The stock is up 17.3% year over year.

The bank represents an attractive hold right now but, like Canada, the U.S. will also see growth slip in the coming years. The U.S. Federal Reserve has forecasted that by 2020 growth will return to a 1.75%

pace that could be the standard for the long term.

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