Alert! The Quiet Years Are Over for the Stock Market

Description

The S&P/TSX Composite Index was down over 80 points in late-morning trading on October 18. All three major U.S. indexes were also suffering a retreat on the same day. Indexes in Asia and Germany were battered overnight.

There is a growing acceptance among analysts and economists that the smooth years for equities following the financial crisis are coming to an end. Markets in the developed world have benefited from an extended period of historically low interest rates as well as the policies of quantitative easing (QE) in the United States, Europe, and Japan. The Bank of Canada had long hinted that it may experiment with QE but has not yet followed the path of its peers.

Central banks have now started to tighten interest rates in response to improved economic fundamentals, although wage growth remains stagnant. The prospect of higher interest rates has shaken some in the investing world. President Trump has publicly criticized the “crazy” U.S. Federal Reserve, a move seen as taboo as the Fed ostensibly works as a non-partisan entity.

More troubling is the lack of ammunition central banks now have for a potential future crisis. Reforms did succeed in making financial institutions more robust, but there are now many new risks in the present-day financial system. Among corporations listed on the S&P 500, debt has tripled since 2010 to one-and-a-half times annual earnings. This threshold is nearing the peaks seen during recessions in the previous two decades.

All aside, the U.S. economy has shown impressive strength over the past two years and the tax-reform bill seems to have done its job. Corporate results, especially in the financial sector, have posted record profits in 2018 so far. Canadian GDP also grew 0.2% in July, according to Statistics Canada, which represented annualized growth of 2% for the second quarter.

Earlier this week, I'd discussed strategies investors can take during this choppy period. More conservative investors may opt to seek out income-yielding equities to protect themselves, while those seeking growth can opt to be more aggressive, as many stocks are discounted during periods ofmarket turbulence.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is still my top Canadian bank play right now and is even more attractive in this choppy period. Shares were down 1% in early afternoon trading on October 18 and the stock is down 5% month over month. TD Bank continues to be attractive with its strong domestic footprint and high U.S. exposure. The stock has now fallen to May and looks like a bargain as we head into the final months of October.

TD Bank also offers a nice in-between for the strategies I have covered above. The bank offers a quarterly dividend of $0.67 per share, which represents a 3.4% dividend yield. TD Bank stock has also posted impressive over a three-year period. Shares are up 43% in this span.

This turbulent period is almost certain to pass before 2018 comes to an end, but a tighter rate environment combined with other risks should inspire investors to be choosy going forward.

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