



Which Is the Better Bank Stock in 2019: Toronto-Dominion Bank (TSX:TD) or Royal Bank of Canada (TSX:RY)?

Description

The stock market sell-off in late 2018 has rattled investors. The TSX has historically performed well in the latter months of the year, but this has not been the case. Canadian bank stocks have not been spared from the carnage, and even a solid fourth-quarter earnings season has not been enough to salvage prices.

Today we'll look at two Canadian banking heavyweights. Shares of both have struggled in recent months, but earnings were consistently positive in 2018. Which is the better option next year? Let's dive in.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#))

TD Bank stock was down 1.5% month-over-month as of close on December 5. The stock reached an all-time high of \$80.05 in late September before succumbing to the global pullback. As of this writing its RSI sat at 43, outside of oversold territory.

TD Bank released its fourth-quarter results on November 29. Adjusted net income rose to \$3.04 billion in Q4 compared to \$2.60 billion in the prior year. For the full-year adjusted profit climbed to \$12.1 billion compared to \$10.5 billion in 2017. TD Bank's earnings were powered by fantastic results in its US Retail banking segment, which were [buoyed by the U.S. Tax Cuts and Jobs Act](#). In Q4 adjusted income in its US Retail segment climbed 40% year-over-year to \$1.13 billion.

Unfortunately for TD, the benefits of U.S. tax reform are already beginning to dissipate. **Goldman Sachs** analysts are forecasting a sharp slowdown in 2019 and a curve inversion, which are both reliable recession indicators. A broad slowdown south of the border will put a cap on TD's growth in 2019 and perhaps beyond, depending on the severity of the pullback.

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#))

Royal Bank stock was up 2% month-over-month as of close on December 5. In mid-November I'd recommended that investors [add Royal Bank](#) as it continued to show strength throughout the year. The

bank released its fourth-quarter results on November 28.

Net income hit a record \$12.4 billion in 2018, which was up 8% from 2017. Royal Bank also reported diluted earnings per share growth of 11% to \$8.36. The bank achieved this on the back of strong growth in Personal and Commercial Banking and its Wealth Management segments.

Wealth Management realized earnings growth of 23% to \$553 million, which was largely due to U.S. interest rate increases. It posted strong growth in residential mortgages in its Canadian banking segment as well as in commercial lending and deposit products.

Which is the better hold in 2019?

At a glance, Royal Bank is not sending oversold signals like it was in late October. However, its balance may be more attractive to investors looking to move away from the U.S. as the post-tax reform boom wears off. TD Bank offers a quarterly dividend of \$0.67 per share and Royal Bank last paid a quarterly dividend of \$0.98 per share. These represent yields of 3.6% and 3.8%, respectively.

In addition to having the slight advantage as far as income is concerned, Royal Bank's residential mortgage growth is also promising. Canadian housing, which was the black sheep of the investing world in early 2018, is entering the new year in a far healthier state. This is good news for Royal Bank's mortgage portfolio.

I like both stocks to bounce back in early 2019 but slowing U.S. growth leads me to prefer Royal Bank as we head into the final weeks of the year.

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