How Much Higher Will Toronto-Dominion Bank (TSX:TD) Go?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has done really well right out of the gate in January. It was my top stock pick for that month, and it went on to soar 9% in the first month of the year. However, even I'm wondering if it might be due to slow down soon. Let's take a close look at where the stock is today and whether it can continue to soar.

Mortgage growth hasn't been this slow in 17 years

This is probably the biggest concern for any investor right now. According to the Bank of Canada, residential mortgages were up just 3.1% in December from 2017's numbers; the growth rate hasn't been that low since mid-2001. With debt levels rising and interest rates increasing, there are many headwinds that are making it difficult for consumers to get new mortgages. The reality is that this was supposed to be by design — to cool ultra-hot housing markets, and that's exactly what's been happening.

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Metro Vancouver home sales in January were at 10-year lows, with the number of houses being sold being a sharp 39% reduction from the prior year. Prices have been dropping as a result, and it could be the start of a growing trend. However, we've heard talk of the city being due for a big correction for a long time now, and that hasn't happened thus far, so we'll have to wait and see if this is the year when we see a big change in the market.

For big banks like TD, this creates some concerns, because unless it finds ways to grow its sales, 2019 could be a year of limited growth. Ultimately, a lot depends on where the economy is headed this year.

Are we due for a slowdown?

The economy has been doing well for several years now, and there are growing concerns that we could be headed for a recession. Consumers might see their wallets get a little constrained with higher interest expenses chipping away at their credit card statements, which means less disposable income and growth for the economy. Likewise, big businesses will feel those effects and a similar impact could see them scale back growth.

The oil and gas industry is a good example of where economic conditions have become so difficult that many producers are cutting back on capital spending; even the Alberta government has implemented production cuts.

Without a strong oil and gas industry and businesses thriving, that's going to result in fewer loans being sought after and could hurt yet another area of growth for TD and other banks.

Bottom line

A few months ago, I'd pointed out before why TD's stock was undervalued and why it could be headed for $80. And while I still see that as a strong possibility, there are some serious issues facing the economy that could throw a wrench into the bank's short-term growth, which could keep the stock from rising as much as it should. Over the long term, however, TD will always be a good buy, as the stock will continue to grow as long as the economy does.

TD is still a great value buy today, but if you're not planning to hold the stock for decades, it might be a good time to look at other options.

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