



Bank Investors: Could the Flattened Yield Mean Massive Trouble Big 6 in 2019?

Description

The yield curve is flattening and it's at risk of inversion. You probably already knew that, but do you know what the inversion of this popular economic indicator implies?

You're probably aware that once the yield curve inverts, the economy is at high risk of falling into a recession, but what you may not know is the fact that many folks have been [incorrectly](#) using the economic indicator the way its discoverer intended it to be used.

Simply put, a flattening (and inverting) yield curve doesn't necessarily mean that a recession is going to happen soon. What it does mean, however, is that big financial institutions like Canada's big banks will be under pressure. Add rising corporate yield spreads and the broader economic slowdown into the equation and the banks appear to be shaped to deliver even more lacklustre quarters than those delivered in Q4 2018.

While the Canadian bank stocks have already taken a bit of the damage, with some bank stocks falling into bear market territory from peak to trough, I do believe investors should continue to be buyers on significant declines, as the banks are terrific long-term holds for any portfolio regardless of what's in store from a shorter-term macro perspective.

Moving forward, the environment looks dire for the banks, but none of the Big Six banks are going to flop around like a fish out of water. Canada's big banks are very well capitalized and will only suffer a mild pullback of an additional 10-15% over the next year in a worst case scenario.

With tempered expectations, I do think bank stocks will continue to consolidate, and if you're in the market for a cheap dividend growth stock, I'd look to **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) as the top buy-the-dip candidate.

At its current levels, TD Bank is fairly cheap, and given its better-than-average Q4, I do believe the valuation gap between TD Bank and its peers could widen, as it's far better positioned to thrive in macro environments that are less than stellar.

Further, I expect TD Bank's prior future-proofing tech initiatives will begin to pay major dividends in the

year ahead with Clari and a revamped WebBroker on the horizon.

Foolish takeaway on TD Bank and Canada's banking sector

TD Bank is a top performer that'll likely stand out in 2019. While the environment is harsher for the banks, I don't suspect anything detrimental will happen for any of the Big Six names. What I do expect, however, are further analyst downgrades and a potential sector-wide pullback in most bank stocks.

I'd be a buyer on these dips, and if you can bag TD Bank with a yield north of 4%, I'd pounce at the opportunity because if I had to guess, such a [fire-sale](#) would likely be short lived.

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