Is the TSX Index Overheated?

Description

The S&P/TSX Composite Index climbed 142 points on February 15. The TSX Index has surged 10.5% in 2019 so far. After such a sharp rise to star the year, investors should be asking questions about the high valuations of Canadian stocks.

iShares S&P TSX 60 Index ETF aims to track the 60 largest companies on the TSX. It is the largest and most liquid ETF in Canada. The ETF rose into overbought territory in late January and now sits at an RSI of 71. This indicates that it is still overbought as of close on February 15.

What about the largest equities on the TSX? **Royal Bank of Canada** (TSX:TD)(NYSE:TD) is the largest constituent on the TSX index going by market cap. It is the largest financial institution in Canada and one of the largest banks in the world. Shares of Royal Bank have climbed 8.5% in 2019 as of close on February 15. The stock is up nearly 1% year over year.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the second-largest constituent on the TSX by market cap. It is also the second-largest financial institution in Canada. TD Bank stock has climbed 11% in 2019 so far. Shares are up 3.8% year over year.

Both banks are expected to release first-quarter results for fiscal 2019 late this month. Royal Bank will report before trading opens on February 22 and TD Bank will report on February 28. In early January, I'd discussed why Royal Bank and TD Bank would be barometres for the TSX index this year. The heavy weighting on the index itself is obvious, but the health of the broader Canadian economy is apparent in these two financial giants.

Jobs numbers have been positive so far in 2019, but other economic data has pointed to a slowdown. The Bank of Canada has forecast that GDP growth will fall to 1.7% in 2019 as the crisis in the oil patch will drag on the economy. GDP fell 0.1% in November 2018, which represented the second such decline over a three-month period. Data lagged in late 2018, but should investors expect a better start to this year?

Not necessarily. The central bank projected that growth would slow to 1.3% in the fourth quarter of 2018. It forecast that it would dip further to 0.8% growth in the first quarter of 2019.

Royal Bank and TD Bank stock look pricey ahead of their Q1 earnings reports. Royal Bank stock had an RSI of 68 as of close on February 15, which is just outside overbought territory. TD Bank boasted an RSI of 70, indicating that it is overbought as of this writing.

Last month, I'd warned investors about overreacting to this rally. For those that exercised discipline in late 2018, this is a good opportunity to reorient your portfolios and potentially take profits in some top growth stocks that have rebounded nicely. Overall, investors should brace themselves for some choppier conditions on the TSX, as we look ahead to the spring and summer months.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/25
Date Created
2019/02/19
Author
aocallaghan