Is There Sudden Danger Lurking in Canada's "Safest" Stocks?

Description

With the spectre of an American recession looming over the investment forums since the yield curve inverted, attention has turned to Canadian banks with exposure to the U.S. economy. At the same time, lower oil has likewise been casting its shadow over financial conversations. Are the biggest stocks on the TSX index starting to look less defensive, or should domestic investors hang tight on big-name financials and utilities?

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

With a growing customer base south of the border, TD Bank is exposed to the U.S. economy — perhaps more so than most other Canadian banks. Indeed, American loan and deposit growth drove the bank's notable Q3 boost last year, enjoying a total net income jump of 12% after its U.S. division experienced a 31% earnings-growth rate.

Down 2% in the last five days, it may be possible that investors are already reacting, at least in part to news of the American yield curve inversion. When asked what TD Bank's one-year returns were, it would be interesting to see how many people would correctly answer -0.8%. This underperformed the TSX index, and though it was not by a great margin (the market returned 1.8%), it's still a concern.

Suncor Energy (TSX:SU)(NYSE:SU)

Down 4.16% in the course of the last five days, Suncor Energy's beta of 1.5 relative to the market may be biting this stock in the tail at the moment. While having a level of volatility that's 50% higher than the market might be okay when things are going well, lower oil can make these kinds of big-name energy stocks feel like less-stable investments.

The data and what is acceptable during periods of higher oil look somewhat mediocre when the global outlook is dim: a past-year ROE of 7% suggests that better use could be made of shareholders' funds, and while a five-year average past earnings-growth rate of 9.1% is very close to the Canadian oil and gas industry average for the same period (10.1%), the company's past-year earnings were negative.

Of course, Suncor Energy remains one of the most defensive investments on the TSX index, and with a dividend yield of 3.88% matched with a good 20.4% expected annual growth in earnings, it's still a sound buy. However, its level of debt compared to net worth has gone up during the last five years from 27.8% to 39.4% today, so that's something for risk-averse buyers to keep an eye on.

Enbridge (TSX:ENB)(NYSE:ENB)

Usually one of the most popular stocks on the TSX index, Enbridge is down 1.57% in the last five days at the time of writing. However, with one-year returns of 19.4% that outperform the industry as well as the market and a meaty P/E of 33.2 times earnings, Enbridge is starting to resemble a top-heavy tech stock at the moment; a significantly high projected 34.4% rise in earnings does little to discourage this kind of comparison.

The bottom line

While TD Bank's dividend yield of 4.08% and 9.7% expected annual growth in earnings over the next couple of years is tempting, the fact remains that exposure to an American recession would not be good news for this stock. Selling with a P/E ratio of 21.3 times earnings, Suncor Energy is a little overvalued at the moment, though it's still a solid defensive play.

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