Here’s Why TD Bank (TSX:TD) Is a Risky Buy in June

Description

Back in April, I discussed why the global growth slowdown was a big concern for investors in Canada’s top banks. Those fears have come to the forefront in May, just in time for Canada’s banks to release earnings.

The U.S.-China trade war entered a new phase in May as the Trump administration moved to increase tariffs to 25% on $200 billion worth of Chinese goods. China retaliated with tariffs on $60 billion worth of U.S. goods. The United States has also intensified its global campaign against Huawei in a bid to stymie China’s technological reach.

The Organization for Economic Co-operation and Development (OECD) has estimated that economic growth in China and the United States could be 0.2-0.3% lower on average by 2021 to 2022 if the trade war continues into the next decade. The OECD has said that trade flows have nearly halved year over year in 2019, and it expect global growth of 3.2% for the year. This is the slowest pace since 2016.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the second-largest financial institution in Canada. Shares have climbed 10.3% in 2019 as of close on May 30. The stock is still down 1% from the prior year. TD Bank boasts the largest U.S. footprint out of all the Canadian banks. This has been a blessing, as U.S. growth has surged over the past two years, but its fortunes could turn quickly as the country’s growth slows into 2020.

TD Bank released its second-quarter results on May 23. Back in March, I warned investors to exercise caution on TD Bank stock in what I thought was an overbought market. TD posted second quarter adjusted net income of $3.26 billion compared to $3.06 billion in the prior year and adjusted diluted earnings per share of $1.75 over $1.62 in Q2 2018.

As usual, its U.S. retail segment was the strong point in the second quarter. Adjusted net income in U.S. retail banking climbed 20% from the prior year to $1.26 billion, which was primarily due to higher deposit margins and increased loan and deposit volumes. TD's Canadian retail banking segment saw adjusted net income rise 2% from Q2 2018 to $1.87 billion. Revenue posted 8% growth due to increased volumes, improved margins, and higher assets under management in its wealth business.

Macro conditions are a growing concern in the financial sector. Canada's domestic economy is also facing major risks going forward. The government is digging in its heels over the mortgage stress test, while lenders and the real estate industry at large are lobbying for softer regulations. The Bank of Canada maintained its overnight rate target at 1.75% amid concerns over the impact the U.S.-China trade war may have going forward.

TD Bank stock is still trading at the high end of its 52-week range. It boasts a forward P/E of 11, which comes in a little pricey compared to its industry peers. Shares had an RSI of 48 as of close on May 30, putting the stock in neutral territory.

The TSX and financial stocks have been hit with turbulence in May, but prices are still high as we look ahead to summer. TD Bank is not in a price range that makes it a worthy buy right now.

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