Why Toronto-Dominion Bank (TSX:TD) Stock Could Be in for a Rough Ride in 2020

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has had a lacklustre performance over the past 12 months, and it may not be getting any better anytime soon. While the stock is up around 14% in 2019, that number is a bit misleading, given that the bank's shares were nosediving at the end of 2018.

For a full year, the stock's performance has been flat. A big part of that has been that although the economy has technically been doing well, many investors are concerned about the future.

Risk of a recession poses a big question mark

One of those concerns is that the economy may be slowing down and that we could be headed for a recession. South of the border, there have been two rate cuts already this year, and there's still a potential for more to come.

A recession there would not only impact TD, which has many locations in the U.S., but it could be a precursor of things to come for Canada as well. Our own economy would likely be impacted by a struggling U.S. market, and it could be what seals Canada's fate and sends it into a recession.

Housing presents another risk

Another factor that could amplify these problems is a slowing housing market. Vancouver home sales are struggling, and prices have been falling, and yet, some experts say that both Toronto and Vancouver markets remain overvalued.

Tougher economic times could put some more strain on those markets, and we could see some bubbles starting to finally pop. That too could be bad news for TD and other lending stocks, as fewer mortgages are bad for business. And with a possible recession taking place, you've also got the risk of default rising as well.

What does this mean for investors?

It could be a very challenging year in 2020 for TD if a recession does end up hitting and consumers and businesses start tightening up their spending. Debt levels have continued to rise, and we could be headed for some challenging economic times for not only TD but the country as a whole.

However, amid all this doom and gloom, the good news is that for long-term TD investors, the stock will remain a solid investment. Even if there is a pullback in the economy, which is by no means a guarantee of happening imminently, TD is in a strong financial position and in good shape to handle the adversity.

What makes TD a great investment during a recession is that the stock pays a dividend, and it's is likely to continue to do so, and that could give investors a good stream of cash flow to offset any losses that their portfolios might suffer during a recession.

As long as you're not planning to sell TD shares in 2020, then you likely won't have much to worry about. Even if the stock does stumble, the odds are very high that it will be able to recover once economic conditions improve, and it will go on producing great returns for investors.

Over the past five years, TD's stock has risen by around 45%.

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