Toronto-Dominion Bank (TSX:TD) Will Benefit From the Fed's Rate Cut

Description

The Fed cut the U.S. headline interest rate for the third time this year last week, reducing it to a range of 1.5% to 1.75%. That has been beneficial for stocks, catapulting the U.S. market to a new record high, which sees the S&P 500 Index up by a notable 23% since the start of 2019. It also gave the TSX a healthy bump up by 16% over the same period but still 1.5% shy of the record high reached in late September.

There is every expectation that stocks will move higher as the U.S. economy shrugs off recent poor manufacturing data and benefits from the stimulus of greater consumption as well as business activity triggered by lower rates. Canada's second-largest mortgage lender, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), is nicely positioned to benefit from the latest rate cut and expected uptick in U.S. economic activity because its U.S. business is a top-10 ranked bank.

Poised for further growth

For the third quarter 2019, TD's U.S. retail baking operation was responsible for generating almost 40% of its net income. That division also reported some notable quarterly earnings growth. Total revenue shot up by 4% year over year while net income gained a healthy 8.5%.

This result came on the back of steady loan and deposit growth in the U.S. which expanded by 8% and 3% respectively. As consumer and business sentiment improves south of the border because of lower interest rates and a weaker U.S. dollar leading to cheaper imports, demand for credit will strengthen.

In fact, it has been shown that there is a direct correlation between greater economic activity and increased consumption of credit and other financial services, boding well for TD's U.S. business. Stronger U.S. growth will also reduce the risk of a global recession and bolster Canada's economy, boosting TD's domestic earnings as well as the outlook for its wholesale banking business.

An improved economy also bodes well for the quality of TD's loan portfolio, leading to a decline in gross impaired loans, lending loss provisions, and credit write-offs. By the end of the third quarter, gross impaired loans by value amounted to 0.42% of total loans, which is a very low ratio, indicating that not only is credit quality strong but it would take a disastrous financial collapse to have a material impact on TD's balance sheet.

While the value of provisions for credit losses grew in value, by 17% year over year to $655 million, they have trended lower as a proportion of net loans to be a conservative 0.38% of the value of net loans, further underscoring the quality of TD's balance sheet.

TD is also well-capitalized and possesses considerable liquidity as evident from its common equity tier one capital ratio of 12% and liquidity coverage ratio of 132% at the end of the third quarter.

Foolish takeaway

The Fed's latest rate cut will be beneficial for stocks and the economy as a whole. That will give TD's market value a healthy boost, particularly with it only having gained a mere 4% over the last year because fears of a U.S. recession were weighing on its outlook. While investors wait for that to occur they will be rewarded by the bank's sustainable dividend yielding a juicy 4%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/03
Date Created
2019/11/07
Author
mattdsmith