2 Canadian Giants to Buy if the Market Rally Extends

Description

Stocks have surged recently on the U.S.'s plans of re-opening its economy and some favourable developments on the pandemic front. However, the **TSX Index** still has a long way to go to reach its record levels of February 2020. Notably, there are many top TSX stocks that seem to be in the early phases of the market rally.

The TSX Index has soared almost 30% since last month. At the same time, Canadian bigwig **Canadian National Railway** (TSX:CNR)(NYSE:CNI) stock has been up only 13% in the same period. On similar lines, the banking giant **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has also rallied only 12% since last month.

Both CN Rail and TD Bank have huge room for growth going forward mainly due to their attractive valuation and solid fundamentals. Investors can expect these two stocks to make up for the lost time and join the market rally soon.

CN Rail: A laggard in the market rally

A $77 billion Canadian National Railway is the backbone of the North American economy. The stock is currently trading almost 20% lower to its 52-week high in February. The recent slump is still a great opportunity for investors to pick up this quality railroad stock.

The pandemic-driven lockdowns brought business activities to a standstill, but the U.S.'s plans of re-opening its economy is indeed great news. While it could be a slow start initially, railroad companies like CN Rail could start to see a light at the end of the tunnel.

Canadian National plans to release its first-quarter numbers next week. The numbers will most likely be lower, but I don't see a significant downside in the stock. The weakness already looks priced in, and the stock could march higher amid the market rally.

The company is fundamentally solid, and its long-term growth prospects are intact. CN Rail's large market share in duopolistic markets, along with a unique set of assets, makes it stand tall, even in challenging times.

Its stable dividend profile and a discounted valuation further add to an attractive investment proposition for long-term investors.

Toronto-Dominion Bank stock looks well placed

As earlier stated, TD Bank stock has soared almost 12% since its 52-week low last month. That's much shorter against peer Canadian banks amid the market rally. Also, TD Bank stock is trading 42% lower to its recent high earlier this year. The stock still has a large room for growth mainly given the discounted valuation against its historical average.

While there are growing recession fears amid the COVID-19 pandemic, investors could continue to take shelter under defensive stocks like TD Bank. Its high yield and superior dividend growth are what conservative investors would look for during an economic downturn.

TD Bank looks well placed in these challenging times, mainly because of its strong balance sheet. Loan defaults and slowed business activities could weigh on its bottom line in the next couple of quarters.

However, the Canadian government has pledged to support big banks if the situation gets out of hand. Moreover, TD Bank's strong presence in the U.S. could facilitate faster recovery compared to peers when things will start to turn.

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