# Value Stocks: Is the TSX Overvalued or Heating Up?

## Description

Does the comeback from the COVID-19 market crash in March signal that the worst is over for the **Toronto Stock Exchange**? Most likely, although this all depends on the economic outlook and central bank decisions. The Canadian government has done an outstanding job of keeping money flowing in the economy through the Canada Revenue Agency's Canadian Emergency Response Benefit (CERB).



Consumers are certainly spending less money this year, as coronavirus restrictions kept more people at home and fewer people in stores or restaurants. In fact, debt balances in Canada dropped 0.5% this year, as consumers paid down credit card debt and mortgages.

What does this mean for the stock market? Investors can expect a decline in profits for affected sectors this year. It also signals a rise in consumer discretionary spending once the health crisis has passed.

Where central bank decisions concern the direction of the stock market, Canada's central bank decided to maintain the benchmark interest rate right at 0.25% as of Wednesday. The coronavirus has decreased the likelihood of federal interest rate hikes, and these low rates could help the stock market remain around current price levels.

## Find solid value investments

Whether or not the stock market is overvalued shouldn't stop you from building your retirement portfolio on the TSX. You can still find top value investments in this time of uncertainty.

**Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock has a price-to-earnings ratio of 10.82 and a price-to-book ratio of 1.27. Further, the price-to-sales ratio is not too high at 3.07. Even better: new shareholders receive a 5.11% dividend yield at the current share price of around $61.73.

Default rates on loans have spiked during the crisis. That being said, there's still a chance that financial stocks may not be the best option this year.

Moreover, some governments are restricting dividends until the emergency has passed. Luckily, the big Canadian banks prioritize their reputation for reliable dividend payments. They have a stellar history of dependable dividends that they want to maintain even during harsh times like these.

I love Canadian banks because they are well capitalized and in an industry highly protected by the government. Not only are your deposits insured, but the federal government is standing by to protect banks in unprecedented times. We discovered this during the 2007 global financial crisis.

The bottom line is that as a value investor, your goal is a long-term outlook. The big banks will be around in 10 to 20 years.

## Invest in the right TSX industries

We are more likely to see a transfer of wealth between industries rather than a further fall in the total market value within the TSX during the second half of the year. Until federal interest rates start rising, a switch from stocks to bonds to correct the overvalued market is unlikely.

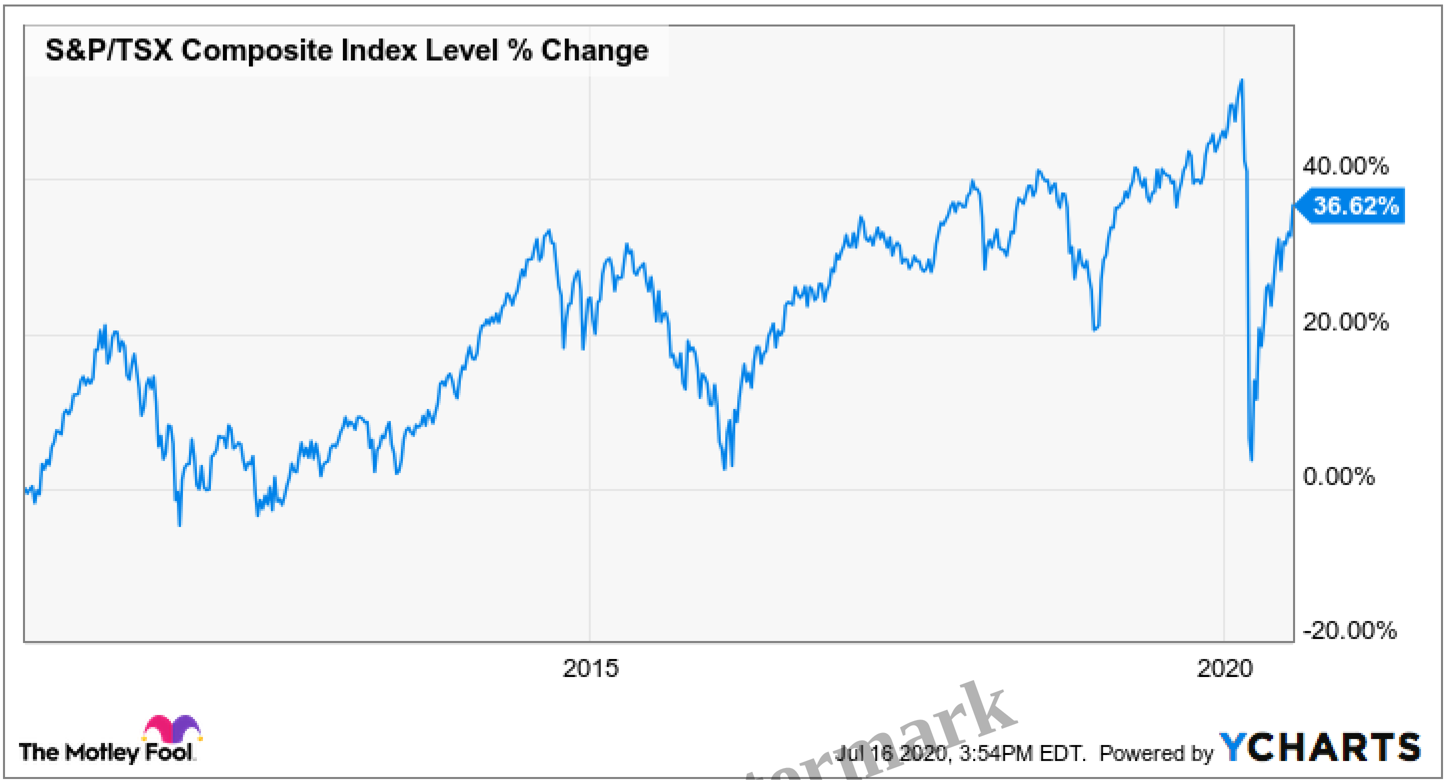
If you aren't sure about financial stocks, you could try e-commerce options like **Shopify**.

I've personally been pretty pessimistic about this stock. The high valuation compared to its financial margins could be unpredictable. Nonetheless, there are still plenty of bulls out there who think it will remain a winner.



The **S&P/TSX Composite Index** has recently bounced back from a similar support level in 2016. Plus, the market tends to have longer uptrends and faster declines. The worst may very well be over for the TSX.

Thus, don't fear for your investments. Understand that the market is entering a new uptrend. If it does slide again, your investments won't remain down forever. They will bounce back to new highs.



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debraray