TD Bank (TSX:TD) Stock Could Crash if Trump Isn't President

Description

Banking stocks always enjoy the position of being some of the ideal top TSX-listed stocks. With the economy on a slow crawl towards mending itself, there are still concerns for banking stocks due to the second wave of coronavirus infections.

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A sustained increase in economic activity can drive banking stock valuations higher. However, several stumbling blocks could make it challenging for top banking stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Toronto-Dominion Bank

Toronto-Dominion enjoys the reputation of being one of the consistent stocks in the Canadian banking sector. TD had an adjusted net income and earnings per share grow at a compound annual growth rate of 9% and 12.5%, respectively. The bank has been providing its investors with reliable dividend payouts for 164 years without breaking its streak.

The bank has seen many challenges over the years, and it continues to drive loan and deposit volumes, which spells good news for the banking giant. The company's total loans showed a year-over-year growth of 7%. Toronto-Dominion's deposits increased by 25% in the same period.

Trouble brewing across the border

Toronto-Dominion looks like an exciting prospect to consider. However, there are potential problems that could spell bad news for the financial institution. The bank was hit by a downgrade from an analyst at the **Bank of America** due to the concerns that TD could face challenging circumstances ahead. The lower-for-longer interest rates compared to its peers could create a problem for the bank.

The analyst, Ebrahim Poonawala, wrote that the low interest rate operations and the bank's exposure to the American market could create further problems due to political factors.

The U.S. election is on its way, and it could lead to a change in policies regarding corporate taxes. TD derives almost a third of its earnings from the U.S., including TD Ameritrade. If Joe Biden comes to power and enacts his policies, Toronto-Dominion could face a significant rise in its expenses from higher corporate taxes.

Confusing situation

Uncertainty is the biggest problem for any sector in the stock market. Toronto-Dominion is unfortunate that it has to face substantial uncertainty amid the U.S. election. The bank has solid operations, and it made a significant recovery from the March 2020 market downturn.

TD is trading for $62.71 per share at writing, and it has a juicy 5.04% dividend yield. The stock's valuation makes it look very attractive for investors seeking bargains. TD is trading for a 17.47% discount on its February 2020 valuation at its current share price.

As attractive as it may seem, TD could be in a lot of trouble, depending on the U.S. elections' results.

Foolish takeaway

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The economy is in the early stage of recovering from COVID-19. If you are interested in banking sector stocks, you should be prepared for short-term volatility across the sector. Depending on the results of the elections south of the border, it is possible that Toronto-Dominion could be in deeper trouble than most of its closest peers.

I would advise practicing caution. If you cannot handle the short-term volatility, I would recommend re-allocating your capital to a company that can weather the conditions and grow your wealth.

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