TD Bank Stock: A Top Pick to Buy Ahead of a Growth-to-Value Rotation

Description

The growth-to-value rotation experienced on Wednesday was pretty pronounced, and it could be a sign of things to come, as growth looks to take a backseat to the unloved value names.

The **Dow Jones Industrial Average** and **TSX Index** rallied 0.6% and 0.8%, respectively, while the tech-heavy **NASDAQ 100** plunged 1.4%, with FAANG stocks leading the downward charge following what now appears to be a Democratic sweep in Georgia's Senate runoff election.

With a higher chance of higher corporate taxes and tougher regulation for big tech, it's not a mystery as to why the tech leaders sold off so viciously, dragging down the broader NASDAQ on a day that saw the **S&P 500** continue its climb.

The tech wreck spread to this side of the border, with e-commerce kingpin **Shopify** stock taking a 2.6% plunge, while **Docebo**, an even bigger 2020 winner (shares were up 660% from trough to peak last year), crumbled 5.4% on the day.

Can the rotation continue?

While only time will tell if Wednesday's vicious growth-to-value rotation will be sustained over the coming months, I think it's only prudent for Canadian investors to re-evaluate their portfolios if they're overexposed to the frothier areas of the market. With names like Docebo that have doubled up many times over last year, it's only prudent to at least think about taking a bit of profit off the table before the unstoppable tech sector takes a breather.

Now, I don't think we'll be in for a catastrophic 2000-style tech-driven sell-off. Valuations, as a whole, aren't nearly as ridiculous as they were in the late 1990s. That said, there are probably many bubbles floating around out there that will stand to be burst. Fortunately, the effect of such bubble bursts, I believe, will mostly be contained to a few names and those who've diversified their portfolios may not even notice the impact.

So, what kind of value names should you look to if you think there's a high chance of a continued rotation out of growth back into value?

TD Bank stock could be a major winner

Consider the Canadian banks, which bounced on Wednesday, with **TD Bank** (TSX:TD)(NYSE:TD) leading the way, up nearly 3% on the day thanks in part to its significant exposure to the U.S. banking scene, which reversed massively.

Back in mid-October, when the outlook couldn't be gloomier for the big banks or the broader economy, given the curtain had yet to be pulled on the COVID-19 vaccines, a handful of Canadian analysts turned their back against TD Bank. I urged investors to take such TD downgrades with a fine grain of salt and noted that the bearish points they brought up were, I thought, already baked into the depressed share price.

"I think the recent bout of pessimism is a tad overblown and would encourage value investors to take [TD Bank's] recent analyst downgrades with a fine grain of salt," I wrote in a prior piece, encouraging investors to ignore the bears.

"TD Bank's greater exposure to the U.S. market has typically been a huge positive for the stock until recently. The COVID pandemic has hit the U.S. hard. With a presidential election that could take a considerable bite out of bank earnings, there's no question that investors are growing weary over TD's above-average exposure to the states."

Fast-forward to today, and TD stock is up over 28% in just over a month, the 5.2% yield has now compressed to 4.2%, and the bargain is gone. Sometimes it pays big to be a contrarian! Sadly, if you followed the herd, which bought into analyst advice at the time, you missed out on the incredible gain.

While TD Bank stock and its peers aren't the same steal as they were when I recommended to buy in spite of the downgrades, shares certainly aren't expensive today, given the recovery trajectory and the dividend, which remains bountiful.

Foolish takeaway

Should the growth-to-value rotation continue, I'd look to the bruised banks to make a run to new all-time highs. Reasonable valuations, a sound dividend, and solid long-term growth are what you'll get from them. That's really all you could ask for in an era of potentially low prospective returns that have incentivized many to take on more risk.

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joefrenette