Toronto-Dominion Bank (TSX:TD) Stock: 2 Bullish Signs From the U.S.

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the most American of Canadian banks. With about 30% of its revenue coming from south of the border, TD is heavily invested in the United States. Its U.S. holdings include a large retail banking operation, and a 13.5% stake in **Charles Schwab** (NYSE:SCHW), the world's largest brokerage.

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When things are going well for U.S. financials, that bodes well for TD Bank. And the latest news from those banks looks A-OK. Recently, two major U.S. banks — **Bank of America** (NYSE:BAC) and **Goldman Sachs** (NYSE:GS) — posted massive earnings beats. While their businesses aren't identical to TD's, there are enough similarities to warrant comparisons. In this article, I'll explore these two companies' earnings beats and what they mean for TD.

Bank of America beats

In the fourth quarter, BAC earned $0.59 per share compared to the $0.55 per share analysts expected. Earnings were down year over year but better than what was expected. The main reason why BAC beat expectations was because of lower PCL. When banks' risk factors increase, they have to increase their reserves to cover losses. This reduces net income in the quarter when it occurs. However, when PCL are lowered, it causes earnings to spike. BAC lowered its PCL by about $828 million, leading to an increase in net income. If the lower PCL was justified, then this is a bullish sign. However, reserve levels are ultimately a decision made by banks, and they can get it wrong. BAC did miss on revenue in the fourth quarter.

Goldman Sachs profit doubles

More unambiguously bullish were Goldman Sachs's results in the fourth quarter. Earnings came in at $12.08 per share, beating analysts' estimates by almost $5. The $11.74 billion in revenue was about $1.75 billion ahead of estimates.

The main reason for Goldman's beat was trading revenue. It dramatically exceeded expectations, coming in $500 million ahead of estimates.

Goldman's Q4 trading beat is directly applicable to TD Bank. It suggests that trading volumes were high in the fourth quarter, and what was true of Goldman could be true of TD's partner, Charles Schwab . Granted, Goldman is an investment bank dealing with institutional clients, while SCHW mostly handles trades for retail investors. But Schwab does have a large wealth management business that could profit off institutional trading. Additionally, there have been reports of U.S. exchanges hitting record high trading volumes overall. Much of that is institutions, but it could be retail traders as well. Schwab's discount brokerage would therefore profit off the high level of activity.

Bottom line

The bottom line is simple: U.S. banks are surging back from last year's doldrums, and that's good news for TD Bank.

With Goldman's profit surging and Bank of America beating estimates, there are bullish signs all around. Sure, bank earnings remain down, and TD is still vulnerable to many risk factors. But it's quite clear that the worst is behind us. Just recently, TD hit $75,58, after taking months to get back to pre-COVID prices. Who knows? Maybe $80 is in the cards in 2021.

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3. NYSE:SCHW (The Charles Schwab Corporation)
4. NYSE:TD (The Toronto-Dominion Bank)
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