



Buy TD Bank Stock Now or You'll Kick Yourself Later!

Description

The Canadian bank stocks have been [white hot](#) of late, with many of them, including the likes of **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Bank of Montreal** hitting new all-time highs. When the big banks got battered last year, few thought they'd be capable of making a return to new highs within a year. That's exactly what happened, though, as provisioning jitters faded. The environment has never looked better for the banks, with sights now set on a potentially rising rate environment that could give the Canadian banks a much-needed profitability jolt.

U.S. Federal Reserve chair Jay Powell is still not calling for rate hikes until 2024, even as we enter a period of transitory inflation. The man took it a step further by noting that investors would receive ample warning before the man even contemplates hitting the rate hike button.

Bond yield jitters continue; U.S. Treasury note yield surges past 1.7%

Powell's extreme dovish stance seemed to have fallen on deaf ears, as the bond market pulled back further, causing 10-year Treasury note yields to swell above 1.7%. Undoubtedly, investors still fear inflation, and the bond market doesn't appear to be factoring out surprise rate hikes that could be in response to a more vicious uptick in the rate of inflation.

The Fed will let inflation surge above 2%. But just how much above 2% before it's time to hike rates. Will Powell be forced to go back on his promises of no rate hikes through 2023? That's possible. I think the bond market seems to think that Powell is bluffing. While the man is more than willing to adopt a wait-and-see approach, I don't think investors should ignore the bond market's reaction. Rate hikes could be coming sooner rather than later, and Canadian bank stocks could skyrocket to new heights well before the fact.

The return of the Canadian bank stocks?

The Canadian bank stocks have been under pressure for far too long. Just this October, I'd urged investors to accumulate shares of the Canadian banks like TD Bank stock, as the sell-side analyst community turned their back against them, with downgrades across the board.

Yes, the banks faced profound headwinds. Things couldn't have been worse. Net interest margins (NIMs) were thin, and it seemed like provisions could only go up. Boy, were the analysts wrong with their downgrade of TD Bank as we marched towards the U.S. presidential election.

I slammed the analyst downgrades, citing that the headwinds they were downgrading over were already baked into the share price.

As it turned out, I was completely right, and the sell-side analysts were dead wrong. It wasn't easy to take a contrarian stance. In fact, I felt quite foolish (that's a lower-case f) for being the lone bull in a crowd of bears.

"Sure, TD Bank faces an uphill road to recovery compared to some of its peers, including the likes of **Royal Bank of Canada**, whose capital markets business has been shining of late. But I think the recent bout of pessimism is overblown and would encourage value investors to take recent analyst downgrades with a fine grain of salt." I wrote in a [prior piece](#), urging investors to buy TD Bank stock on analyst downgrades.

Fast forward to today, around six months later, and TD Bank is up 42% since October, around the same time my bull piece was published — not a bad return for a six-month period. But you had to go against popular opinion to get the gain.

Foolish takeaway

We're not even out of this pandemic, and everyone is worried about an overheated economy and rate hikes. I think the setup for the Canadian bank stocks couldn't be better over the next five years and would encourage you to bet big on TD Bank stock and its peers.

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