This Top TSX Bank Stock Has Surged 60% This Past Year: Why the Ride May Not Be Over

Description

Investors in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have seen some pretty impressive capital appreciation over the past year. Yes, there was a pandemic, and these returns are largely swayed by a very bad March last year. However, a 60% one-year return is nothing to sneeze at.

TD continues to be one of the best big banks in Canada. Here's why I think more upside could be on the horizon for this lender.

Rising interest rates bullish for banks

Banks have gotten a big boost from rising interest rates of late.

Indeed, a steepening yield curve is very bullish for net interest margins (NIMs) banks rely on for profitability. As interest rates rise and expectations of economic improvement pick up, banks should do very well in this type of environment.

Indeed, banks like TD are highly sensitive to changes in the broader economy. A bullish outlook for the economy is bullish for TD and its peers.

Provisions for loan losses likely to lead to outperformance near term

Provisions for loan losses have been a key contributing factor to TD's underperformance this past year. However, in recent quarters, the company has removed many of these provisions. Thus, the company's bottom-line performance has improved substantially.

If the economic recovery is as impressive as the market seems to believe, TD stock could outperform over the near to medium term. As with most of its peers, I think TD conservatively provisioned for loan losses. Accordingly, the future looks very bright for this household name.

Of course, the removal of loan-loss provisions is a short-term catalyst. Investors can't bank on this kind of earnings performance each and every quarter moving forward.

Risks do exist

That said, the 60% one-year surge in TD's stock price isn't without risk.

TD's still highly exposed to heavily indebted consumers, both on the mortgage end of the spectrum, as well as with corporate clients. Wealth management and trading fees have undoubtedly supported this stock's meteoric rise. However, to think these catalysts can continue in perpetuity is dangerous.

Accordingly, as with any core holding, keeping one's exposure to a particular sector to a level that fits within one's risk tolerance profile is important. Owning TD is great, but owning all of the Canadian banks at similar weightings, with a total portfolio weighting well in excess of any other holding isn't a good idea.

I think TD is very likely to continue to perform well over the next 12 months. However, if economic conditions change or we see another financial crisis take hold, this stock could do what it usually does during periods of uncertainty and sell off.

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