TD Bank Stock's Incredible Rally Is Far From Over

Description

Don't look now, but **TD Bank** (TSX:TD)(NYSE:TD) is in the middle of an unstoppable rally. Just last year, when there were few if any, things to get excited about as far as Canada's top financial institutions, it was the perfect time to be a contrarian buyer. Nobody was thinking about higher interest rates when the global economy fell into a brutal recession. Now, the tables have turned in a big way, and with concerns over inflation and an overheating economy, rate hikes may very well be on the table over the next two years.

The outlook is improving drastically

The Fed remains as dovish as ever. Still, investors seem focused on what's next. Sooner or later, Fed Chairman Powell will have to hike rates, and with a more than 4% spike in consumer prices in the books, investors appear to be betting on sooner rather than later.

In any case, the transitory bout of inflation remains a top risk for this market, in particular high-growth tech stocks. The hottest unprofitable speculative tech stocks that skyrocketed last year are now falling back to Earth. And taking their place in the top-performers list? The Big Six. These are the companies that many investors gave up on last year despite their proven track record of long-term outperformance, their dividend stability and, in most instances, their knack of making it through horrific crises.

A bargain you can bank on

Of the Canadian banks that have come roaring back on the other end of a downturn or crisis, TD Bank tends to be at or at least *near* the top of the class. Led by a brilliant CEO Bharat Masrani, the bank tends to grow at a stellar rate over time without having to bear excessive amounts of risk that many U.S. banks may be tempted to do to pull ahead of peers.

TD Bank is a pretty conservatively run bank. It won't run the risk of overextending itself in good times if it means being better prepared for the inevitable economic downturn, or, in the case of 2020, a horrific and completely unforeseen crisis.

As Warren Buffett famously put it, “Only when the tides goes out do you discover who’s been swimming naked.” In the case of the Big Six Canadian banks, all of them had their swim trunks on ahead of the horrific plunge that was to come. The capital ratios were well above industry requirements, with enough wiggle room to make it through a meltdown.

TD Bank, Canada’s most American bank, deserves top marks for its navigation through last year’s rough waters. With the tides finally slated to turn in its favour, a booming economic recovery and net interest margin (NIM) expansion resulting from potential rate hikes, now is as good a time as any to get into TD Bank stock.

Foolish takeaway on TD Bank stock

If you missed the run off the bottom, don’t fret. While the stock is fully valued at 13.4 times earnings, the backdrop has improved drastically over the past year. Furthermore, TD Bank looks to have more room to run than its peers to regain its premium price tag.

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Author

joefrenette