TD Bank Is a Top Dividend Stock to Buy on Delta Variant Jitters

Description

Canadian bank stocks took a left hook straight to the chin on Monday. This sudden pullback came amid the recent cooling off of bank stocks that seemed unstoppable for well over a year now. Undoubtedly, macro conditions have taken a 180-degree turn since the ominous first and second quarter of 2020.

Delta variant rattles the Canadian bank stocks

As I noted in a prior piece, the insidious Delta variant of COVID-19 was likely to dethrone rising rates as the number one thing for investors to worry about. With the 10-year Treasury note falling into the 1.2% range, it certainly seems as though investors are bracing for another “Wile E. Coyote” moment like the one suffered back in February 2020.

While the Delta variant is something to keep an eye on, I don’t think we should expect looming lockdowns anytime soon.

Furthermore, **Pfizer** has a booster shot in the works to target the delta variant. Moreover, recent data reveals that fully-vaccinated individuals still have very good protection against variants such as Delta. For the fully vaccinated, even breakthrough cases are unlikely to cause severe forms of illness.

While it’d be wise to maintain a COVID-19 “barbell” portfolio strategy, like the one that helped mitigate pandemic risks last year, I do think that the best bargains lie in the “secure” reopening plays such as the Canadian banks.

High-quality Canadian banks are buys on overblown Delta fears

As it stands right now, I find it highly unlikely that the Delta variant will bring forth a repeat of what we witnessed last year. Moreover, the great economic recovery, I believe, will go on in spite of any local outbreaks of COVID-19.

While such variants may prolong the pandemic, many firms are well-positioned to do well in this kind of near-normal environment that could persist for several months.

With Canadian bank stocks cooling off, I'd have a close look at the ones that are the furthest away from their all-time highs. Provisions are likely to continue flopping as earnings bounce back. Add ever-improving credit quality and the prospect of higher rates into year-end into the equation and it becomes more apparent that Canada's top banks are screaming buys on weakness.

TD Bank: The discount steepens

At the top of my buy list is **TD Bank** (TSX:TD)(NYSE:TD), which is off 8% from the top.

TD Bank took a major breather over these past few weeks. Most other bank stocks flatlined or retreated modestly, while TD Bank stock dipped quite sharply. With TD stock now flirting with a correction, I'd look to accumulate shares, especially if you're light on financials that stand to benefit from higher rates.

TD stock is leading the latest sell-off in Canadian bank stocks and for no real good reason. It has a stellar balance sheet and stands to benefit most from net interest margin (NIM) expansion as rates gradually ascend again.

With Delta pressuring bond yields, the biggest high-rate beneficiaries, like TD, are taking a brunt of the damage. As this economy booms and rates pick up again, I'd look for TD to go from laggard to leader.

For now, the stock trades at just 10.5 times earnings with a 3.9% dividend yield.

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joefrenette