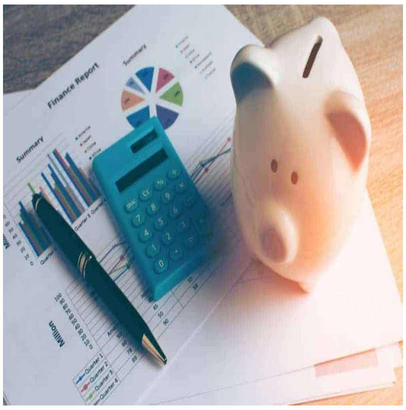

TD Stock: Is Toronto-Dominion Bank a Buy?

Description

The Canadian market has been bullish for over a year now. The predictions for a market correction are growing louder. During such times, blue-chip stocks, like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) might provide the perfect hedge to any portfolio.

TD Bank is one of the largest domestic banks and with a strong presence in Canada and the United States. TD stock has delivered great long-term returns in the past and has gained about 35% since the last year and 14% year to date. Here's why it remains a top buy right now.

The rising inflation effect

With inflation rates rising, TD Bank is a good bet for investors. It is likely that the Bank of Canada and the U.S. Federal Reserve will start increasing interest rates sooner than later, thereby providing a great opportunity for banks like TD to generate higher revenue from loans.

It is a known fact that as the interest rates keep rising, banks can take advantage of the difference between the interest rates it pays to the customers and the interest rate it can earn by investing the customer's money and consequently earn higher margins, thereby improving the bottom line as well.

However, with rising inflation, the number of loan defaults might also increase once the government-assistance programs and payment deferrals are withdrawn, and that also might largely impact the bank's revenues.

TD stock generates passive income

Regular dividend payouts provide investors with a sense of security. So, given the high volatility in surrounding equity markets, investors usually prefer stocks that offer consistent dividend payouts.

The best part about TD stock is, it can provide its investors with passive income in the form of consistent dividend payouts. In addition to generating robust profits across business cycles, TD Bank also has a history of paying out decent uninterrupted dividends.

The stock currently has a forward dividend yield of 3.83% and considering the fact that the bank is currently having excess capital piled up, there might be a hike in the company's dividend payouts as soon as it gets approval from the government officials. Moreover, the company might also enter into strategic acquisitions, which might further drive its growth rate.

Strong recovery for TD Bank

TD stock has recovered quite a lot after facing pandemic-related headwinds and is currently trading at $82 — well above the $53 mark it had reached during the 2020 lows. Moreover, as per its latest third-quarter report, the bank has witnessed a solid 56% YoY growth in its adjusted net income. Such recovery was possible due to the rise in customer activity since the reopening of the economy, which influenced the bank's earnings, especially across the personal and commercial banking segment. However, upon considering the broader market scenario so far this year, TD Bank stock has underperformed and is trailing the TSX.

TD Bank is a high-quality stock that can provide exposure to both Canadian and U.S. markets. The stock has proved its resiliency quite well amid COVID-19 and continues to increase shareholder returns. Currently trading at a price-to-earnings multiple of just 9.74 times, it is undoubtedly one of the best bargains on TSX considering the potential future gains it can bring.

CATEGORY

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