



TD Bank Stock Could Soar in This Turbulent Market

Description

The stock market in December is nothing if not turbulent. Tech stocks are selling off and taking much of the rest of the market down with them. For the month so far, many stocks are down. Yet one category of equities is doing pretty well: *bank stocks*.

Since December 1, the TSX financial index has risen a modest 0.82%. That might not seem like much, but consider that the NASDAQ-100 has fallen 1.04% in the same period. This month, bank stocks are doing comparatively well — and they could continue to do so. Both the U.S. and Canada are set to raise interest rates next year, which could benefit banks. Unlike most companies, banks can make more money when interest rates rise, because higher rates increase their profit margins on loans.

One bank that is uniquely poised to profit from this trend is **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). As a bank that operates in both the U.S. and Canada, it could benefit from interest rate hikes as well as the economic recovery from COVID-19. In this article, I'll explore my bullish thesis on TD Bank stock, which I am heavily investing in today.

Interest rates set to rise

As alluded to earlier, [interest rates are set to rise](#) in both the U.S. and Canada in 2022. The Bank of Canada has all but confirmed that it will raise interest rates, the Federal Reserve has been more opaque but has been rumoured to be considering the same action. When interest rates rise, banks can potentially earn higher profit margins on their loans. This is not guaranteed to be the case — as the St. Louis Fed points out, there have been periods when rates fell, and so did bank profit margins. But there is with banks at least the possibility to earn more profits in a higher interest rate environment. There is in contrast to other companies for whom higher interest rates mean higher costs.

A successful fourth quarter

Another reason I'm very enthusiastic about TD Bank stock today is because it had a very successful fourth quarter. In the quarter, the bank delivered a number of metrics that beat analyst expectations,

including the following:

- \$2.04 in reported EPS
- \$2.09 in adjusted EPS
- \$3.78 billion in reported net income
- \$3.87 billion in adjusted net income
- 19% growth in Canadian retail banking
- 58% growth in U.S. retail banking
- A 15.2% CET1 ratio

These were all very encouraging metrics. The GAAP earnings technically declined from the fourth quarter a year before, but that was mainly because the prior year quarter included a huge gain on the sale of an asset. Adjusted earnings saw solid growth. Additionally, fourth-quarter earnings were up 32% compared to the fourth quarter of 2019. So, we are already seeing solid growth compared to the pre-COVID-19 period.

Foolish takeaway

TD Bank has long been one of my favourite Canadian financial stocks. With a cheap valuation, decent growth, and an [okay dividend yield](#), it has a lot going for it. Today, TD is not as cheap as it was in the past. But with the way the economic winds are blowing, it may still have more strong years ahead of it.

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