



Why Toronto-Dominion Bank Stock Rose 37% in 2021

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) had an excellent year. TD Bank stock was up a whopping 37% in 2021. That means it outperformed the S&P/TSX Composite Index by 17 percentage points!

This year, it seems to be carrying on the momentum. TD Bank stock is up 1% in just the first two trading days of 2022. Here's why this trend could continue for the next few months.

Rising interest rates

After a wave of inflation, central banks are likely to raise interest rates in 2022. The Bank of Canada is expected to raise benchmark interest rates five times this year. That's bad news for overvalued growth stocks and overhyped tech companies. But it's good news for banks.

Banks can simply pass the higher interest rates onto consumers. Rates for mortgages, personal loans, and commercial lending are adjusted very quickly. Meanwhile, the gap between the interest rate the bank *earns* and what it *pays* widens in such environments. In other words, profits are likely to rise, which is why TD Bank stock has more room to run.

Economic recovery

Believe it or not, the pandemic is nearly over. The new variant is considered less severe than the previous one. Meanwhile, much of North America is fully vaccinated and boosted. Demand for consumer goods is still rebounding. Meanwhile, energy prices are significantly higher, which is great for Canada's oil-dependent economy. Real estate, of course, is as strong as ever.

All these factors should boost TD Bank stock further in the new year.

Better dividends

Investors may not have been aware of the fact that bank dividends were restricted by regulators. The Office of Superintendent of Financial Institutions placed a cap on bank dividend payouts to ringfence the economy. Last year, they lifted these restrictions, which have resulted in a bank [dividend boom](#).

TD Bank stock now offers a dividend that's 12.65% higher than last year. At the time of writing, the yield is just over 3.6%, which is much better than the net rental yield on an investment property. In 2022, the dividend is likely to grow further. That's probably one of the key reasons TD Bank has performed so well recently.

TD Bank stock valuation

Despite the bull run, TD Bank stock is still trading at fair value. The price-to-earnings ratio is 13, which implies an earnings yield of 7.7%. Considering the growth outlook for 2022 and the strength of its balance sheet, TD Bank stock looks like a safe haven for most investors.

Bottom line

There's a lot of uncertainty for investors in 2022. The pandemic, interest rates, inflation, and economic growth are all unpredictable. However, Canada's banks are in good shape and trading at fair value. If you're looking for a low-risk bet in the new year, consider TD Bank stock and its peers.

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