



## Will TD Bank Stock Keep Outperforming in 2022?

### Description

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) delivered a solid performance in 2021. Up 35% for the year, it easily beat the S&P 500, the TSX, and every other relevant benchmark. In part, that was because the stock took such a beating the year before. In March 2020, TD stock fell 35%, as the COVID-19 pandemic made its loans riskier than they were before.

At the time, there were serious concerns that the layoffs that accompanied the pandemic would result in mortgage defaults. There were also concerns about defaults on oil and gas loans, as oil prices were too low for tar sands companies to turn profits.

That was then; this is now. Canada's economy is recovering from the damage it took because of COVID, people are getting back to work, and oil prices are high. Not only that, but interest rates are set to rise in the year ahead — that's a negative for most industries but a positive for banks. In this article, I will make the case that TD Bank could once again outperform in 2022, especially if the macro environment remains favourable to it.

### Interest rates rising

The biggest thing TD has going for it this year is the fact that [interest rates are set to rise](#). When interest rates rise, banks earn higher profit margins on their loans. Both loan interest and deposit interest go up when central banks raise rates. However, loan interest tends to go up more, so [bank profit margins improve overall](#). That doesn't mean that earnings necessarily go up when rate hikes occur. Higher interest rates can lead to fewer people taking out loans. However, there is potential for higher profits if the rate hikes are accompanied by strong economic growth.

### COVID-19 economic recovery set to resume

Another factor that TD Bank has going for it is the fact that the COVID-19 economic recovery is set to resume. TD spent much of 2021 delivering stellar growth, thanks to the economic re-opening following the first wave of pandemic lockdowns. In its most recent quarter, TD's earnings grew 40% year over

year. With businesses re-opening and people getting back to work, the bank was able to lower its PCLs. It also delivered some revenue growth. With both factors combined, the earnings growth was significant.

In the fourth quarter, there was a bit of a setback, as the COVID-19 Omicron variant once again led to mass lockdowns and other public health measures. It's not clear what effect this will end up having had on TD's earnings. However, it's beginning to look like this might be the last major wave of the pandemic. More and more experts are coming out with talk of "endemic COVID" and "adjusting to the new normal." Furthermore, the percentage of the population that's vaccinated grows every day. It has taken a while, but we may finally be seeing the end of pandemic. And with that will come higher profits for banks.

## Foolish takeaway

2021 was a great year for TD Bank. Between the economic recovery, reduced PCLs, and overall bullishness toward bank stocks, Canada's second-biggest bank had a great year. In 2022, the gains look set to continue. Both the Bank of Canada and the Federal Reserve are going to be raising interest rates, which could lead to easy profits for TD. Overall, things are looking up.

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