TD Stock: Discounted and Buyable After This Week’s Plunge Below $100

Description

Markets were plunging lower on Wednesday in response to more hawkish comments from some of the folks on the U.S. Federal Reserve. Such comments sent U.S. rates surging above 2.6%, marking a new high in the magnitude of hawkishness in the fight against inflation, which is unlikely to conclude this year.

Combined with the ongoing Russian invasion of Ukraine and last week’s inverted yield curve, and it seems like investors are in for quite a roller-coaster ride over the coming quarters. With all eyes on earnings, we shall see if the economy is strong enough to take another few rate hikes without being knocked down into recession or worse.

Currently, billionaire guru and activist investor Carl Icahn sees a recession or perhaps something worse. Other skeptics simply do not see a scenario where the Fed engineers a soft landing as it raises rates faster, perhaps going into a period of economic fragility. It’s not a great situation to be in, and investors should be prepared for anything, as the number of risks threatens to take a bite out of valuations across the board.

Will the Fed get even more hawkish from here to beat down inflation? It’s entirely possible. In any case, I’m not a huge fan of growth stocks as they stand today. Rates are higher than they were when speculative tech (or high-multiple growth stocks) were back in the depths of March. Higher rates are bad news for the growth trade, and, arguably, such speculative plays should be at or even lower than where they were at the bottom hit prior to the past three weeks of relief rally.

Growth trade fades: Time to get back into value?

While predicting market moves over the near term is a fool’s game (that’s a lower-case *f*), I think that a thorough evaluation of the risk/reward scenario is only prudent. Even after the two-day slide that ended the big relief ricochet off market bottom, valuations aren’t as good as they were in the back half of March, especially the tech plays that stand to suffer most as rates creep towards 3%.

In this piece, we’ll have a closer look at two value stock that didn’t deserve to get pummeled earlier this week. I'd be a buyer of those, as the growth trade fades in favour of value once again. The rotation between value and growth is nothing new, and it may not end when you expect — not until the Fed takes its foot off the rate-hike pedal, which I don't expect until CPI numbers fall drastically. Given supply constraints, more rate hikes may be needed — perhaps enough rate hikes to bring forth another correction.

TD Bank stock: Did it deserve to flop this week?

In any case, **TD Bank** (TSX:TD)(NYSE:TD) is one of the names that should be rallying, not falling, in the face of the rising rates to come. Undeniably, the risk of recession is bad news for TD. Given the Fed's intent to soften the hit of higher rates, though, I think TD stock isn't nearly as bad a value proposition for those willing to hold through a recession, which may be as mild and short-lived as the one experienced just two years ago.

At 12.4 times trailing earnings, TD stock isn't all that expensive. In fact, it looks to have more risk baked in, even with the tailwind of higher rates on the horizon. With First Horizons bank in TD's arsenal, I'd look for the big Canadian bank to grow its loan book while expanding upon margins. Indeed, there's a lot of love on the horizon. Even if a recession sends TD stock tumbling, investors should feel comforted by the stock's tendency to bounce back sharply once the new bull market is born!

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