1 Top Canadian Banking Giant to Watch Now

Description

Canadian banking giants are among the best in the world. The Big Six Canadian banks have rewarded long-term investors with the perfect mix of dividends, dividend growth, and capital appreciation. They've been through good times and bad, but their dividends have proven robust, and with some of the best capital ratios out there, they've held steady, even during the scariest of economic environments.

Simply put, Canadian banks are of the utmost quality as far as blue-chip, dividend-growth stocks are concerned. The COVID-19 crisis was horrific for Canadian investors overweight in the big banks, as they nosedived sharply into the abyss, shedding considerable amounts of value in just a matter of weeks.

TD Bank stock: Rally ends in a correction

Since bottoming out in 2020, the bank stocks have been unstoppable. Amid the recent wave of market volatility that saw the tech-heavy Nasdaq 100 fall briefly into a bear market, the banks have seen their rallies run out of steam.

Some, like **TD Bank** (TSX:TD)(NYSE:TD), have seen their shares fall into correction (10% fall from peak to trough). Though rate hikes are good for the profitability of the big banks, slowing economic growth and a recession (or worse) does not bode well for any corporation, even the best-in-breed banks. While higher rates will enhance net interest margins (NIMs), especially for a retail-heavy bank like TD, they're not much to get excited about if the economy is to contract, acting as a heavy drag on loan growth.

Indeed, the perfect scenario would see the Canadian banks enjoy the best of both worlds: high loan growth and higher rates. With central banks looking to take a bit of heat off the economy to cool inflation (it's 8.5% in the United States!), investors may be a bit jittery about beefing up their portfolio's banking exposure.

They've had quite the run, and it was just a matter of time before they had a chance to cool off. With valuations now at the lower end in anticipation of a more challenging economic environment, I think bank investors should give their favourite Big Six names a second look.

Their dividends are powerful, ready to grow, and their share prices could have considerable upside if there's nothing to fear but the fear of a recession itself. Undoubtedly, recession fears could trigger a recession. But with smart people in the hot seat of the Federal Reserve, I think the risk/reward scenario remains attractive for Canada's top banks.

A better bank for your buck

Today, TD Bank looks like one of the better bank stocks for your buck. Shares are down around 13% from their highs, just shy of the $110-per-share level. Investors don't appear to be big fans of the bank's First Horizons acquisition, which was worth US$13.4 billion.

The deal would give TD over 1,500 branches in the U.S. market, further bolstering its already impressive American banking presence. Though there will be hefty costs ahead of a potential U.S. recession, I think that the long-term fundamentals have changed for the better.

If anything, TD could be one of the first bank stocks to blast higher if markets are given an all clear. If the inverted yield curve is proven wrong and no recession strikes in 2023, I think TD stock could easily break out to new highs. Even if we are due to fall into yet another recession, don't count on TD stock staying lower for longer. It's just too durable a bank, and its valuation seems to be too low, given the high calibre of management.

The bottom line on TD stock

Have investors soured on TD and the big Canadian banking giants too soon amid rising worries? I think that could be the case. At 11.7 times earnings, with a 3.8% dividend yield, TD stock looks like a bargain pick-up for any investor looking to do well over the next 10 years. TD's First Horizons acquisition won't pay off overnight, but in due time, it's likely to pay significant dividends. I'd say that the odds the deal proves worthy are very high, even with headwinds on the horizon.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date
2025/07/04
Date Created
2022/04/18
Author
joefrenette