



2 Absurdly Cheap Stock Picks That Could Rally in a Market Melt-Up

Description

Wednesday's Fed-induced market melt-up was quite [unexpected](#). The Fed didn't sound dovish by any means, but it did reassure what most of us already knew. The Fed also shot down a more hawkish scenario that saw three hikes in one go. With that off the table, investors now have more clarity, and the Fed has a bit more credibility gained back since the days of its transitory inflation views.

Warren Buffett previously praised Fed chairman Jay Powell as a hero. I think he's right on the money. His track record has not been perfect, far from it. But he has learned from his mistakes, and that's led to better policy moving forward.

Indeed, when there's turbulence it can be hard for a pilot to keep passengers from reaching over for those barf bags. Still, it's all about the landing. The Fed can [engineer](#) one, but pundits will doubt it, going back to how wrong they were about their views of inflation. They know they're wrong, and they're also being more humble about the "soft landing" they're shooting for. It's this humble, data-driven nature, with extra transparency, that I think can help calm investors at a time like this.

Sure, nobody wants rate hikes. But taking inflation seriously, with the openness of a data-driven approach after ripping the band-aid off is the best we can ask for in a central bank. In Canada, the Bank of Canada needs to tighten, perhaps by a full 100 bps in one go. Commodity strength has led to an economy that's way too hot. The BoC has a strong case for being way more hawkish than the Fed. And if it can deliver with big rate hikes to stomp out inflation, the loonie could bounce to above US\$0.80 again.

As rate hikes come flying in, I view the big banks as wonderful investments. **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) is dirt cheap after correcting. So too is **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)).

TD Bank

TD Bank is such a great long-term bank stock. The company has exceptional managers and will be hard at work integrating its First Horizons deal — a deal that I think came pretty cheap! Of course, investors are no fans of the U.S.-Canadian retail banking mix, with concerns that the economy could

slow, leading to sluggish loan growth. Though rate hikes' positive effect on margins is already baked in, I wouldn't at all be surprised if the banks get the strong economy and higher rates.

Currently, the BoC looks more behind the curve than the Fed, in my opinion, given the strength in the Canadian economy. With TD, you're getting a balanced mix of high-margin retail banking exposure on both sides of the border. First Horizons will be costly, but long term, it should pay off big time, especially if we're in the early innings of a bull run.

Manulife Financial

Manulife is an insurer that's been perennially discounted. The slowdown in Asia has been a major source of near-term concern. Though the Chinese economy will be weighed down by the zero-COVID protocol, I'm still a believer in Manulife from a long-term perspective. Why? Manulife still rides on secular tailwinds from the booming middle class in the growthy Asian region.

Further, Manulife has excellent managers that can help ease the volatility between now and the next big expansion. Of course, COVID news will weigh heavily on Manulife. But as rates rise and the economy heals, I think it's hard to ignore shares of MFC while they're trading at just 7.18 times trailing earnings. The stock looks like a value trap, but it looks to be real value for those willing to hold for at least five years. The 5.2% yield should be enough incentive to hang on!

CATEGORY

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Author

joefrenette

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