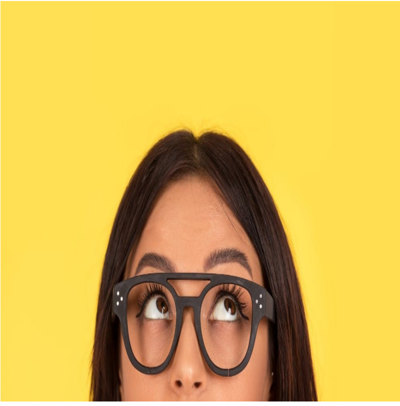

Better Buy: TD Stock or JPMorgan?

Description

Companies in the banking sector are under the pump in 2022, as investors are worried about the double threat of rising interest rates and the prospect of an upcoming recession. A recessionary environment coupled with rising debt costs is bound to send delinquency rates higher as well. Further, loan demand across verticals such as consumer, mortgage, and commercial lending will be negatively impacted in the near term.

However, unlike the financial crisis, most banks are well capitalized in 2022 and are better poised to withstand a downturn. The ongoing selloff has driven dividend yields higher too, making several banks attractive to income-seeking investors. Further, bank stocks are trading at a discount and can stage a turnaround in 2023 if investor sentiment improves.

Given these factors, I'll compare two banking giants, **Toronto-Dominion Bank** (TSX:TD) and **JPMorgan** (NYSE:JPM), to see which is a better buy right now.

The bull case for JPMorgan stock

JPMorgan is the largest bank in the United States in terms of total assets. It is also well diversified, as it provides services ranging from consumer and corporate banking to institutional investing and investment banking.

Down 21% from all-time highs, JPM stock has returned 343% to investors in the last 10 years after accounting for dividends. Its dividend yield is also close to 3%, and these payouts have increased at an annual rate of 5.5% since November 2002.

JPMorgan recently launched a robo-advisory service, where investors can create and implement a financial plan. It also disclosed a venture capital arm targeted toward investing in the biotech industry.

In the next few months, JPMorgan will have to contend with lower income from its mortgage lending and investment banking divisions. But its strong financials and beaten-down multiples will limit the stock’s downside potential.

The bull case for TD stock

One of the largest banks in Canada, Toronto-Dominion Bank, is trailing the market, as its shares are down almost 16% from all-time highs. With a tier-one capital ratio of 14.9%, TD Bank is in a much better position compared to peers to deal with an uncertain macro-environment.

While most banks south of the border, including JPMorgan, slashed dividend payments during the financial crisis, TD and its Canadian peers maintained these payouts showcasing the resiliency of its balance sheet. Its current dividend yield is close to 4%.

The Canadian banking sector is well regulated and quite conservative. As barriers to entry are high, just a handful of banks dominate the Canadian market.

However, TD Bank is now eyeing rapid expansion in the United States. It recently announced its intention to acquire **First Horizon** in a deal valued at US$13.4 billion, allowing TD to gain traction in 22 states. TD also intends to acquire Cowen, one of the largest investment managers in the world, to expand its presence in the asset management segment.

The Foolish takeaway

Both JPMorgan and TD Bank are blue-chip stocks that have created massive wealth for shareholders over multiple decades. While it’s difficult to choose a winner, let’s take a look at the valuation of these banking heavyweights.

Right now, TD stock is priced at 11 times forward earnings, and profit margins are forecast to rise by 8.7% annually in the next five years. Comparatively, JPM stock is priced at 11.7 times earnings, but the bottom line is forecast to compress from US$15.36 per share in 2021 to US$12.82 per share in 2023.

Right now, TD’s steady earnings growth makes it a better bet compared to JPM stock.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:JPM (J.p. Morgan Structured Products B.v.)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider

2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. araghunath
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date
2025/06/28
Date Created
2022/11/28
Author
araghunath