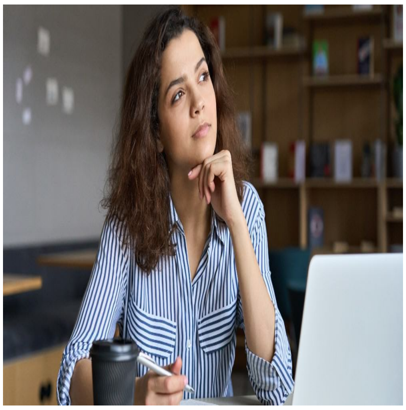

Why TD Stock Fell 9.6% in 2022

Description

Stocks go up and down. They appear to move on news in the short run. In the grander scheme of things, the macro economic environment has bigger control in the general movement of the stock market.

Even quality dividend stocks like **Toronto-Dominion Bank** (TSX:TD) can experience down years. For example, in 2022, TD stock fell 9.6%. If you count the dividends received, the return would have been -6% for the year. This aligns with the market, using **iShares S&P/TSX 60 Index ETF** as a proxy, which fell 9% in the period and returned -6.4% in total.

This is perfect for leading into the discussion of why TD stock fell last year — the market generally was down last year.

Reason one: The market was down in 2022

The market exchange-traded fund (ETF) consists primarily of the financials sector (35% of the ETF), the energy sector (18.2%), and the industrials sector (12%). The big Canadian banks, including TD stock, along with the big insurance companies make up a good portion of the financial sector.

When the market ETF falls, it's likely that most holdings are also in the red. Moreover, bank stocks are sensitive to how well or poorly the economy is doing. So, it's not surprising that TD stock was down when the market was generally down.

Reason two: TD stock had a good run in 2021

One reason the market was down in 2022 was because it had a good run in 2021. So did TD stock. The market's total return was 28% in 2021. The big bank stock's return of just over 40% outperformed the market by 12%.

To dig deeper, the COVID-19 pandemic halted the Canadian economy with freezes in businesses, such as restaurants, hotels, and tourism during 2020. Consequently, it negatively impacted the economy and TD stock, which was sensitive to the economic health. The market and TD stock ended up experiencing a crash, hitting the bottom around late March 2020.

During the pandemic, the Canadian government pumped over $200 billion into the economy as COVID-19 aid, including handing out money to Canadians who couldn't work and in desperate need of money, as well as provided temporary rent relief to certain retailers. This massive influx in money supply led to a rally in stocks, including TD, in 2021.

If you look at long-term stock price charts, you'll notice that stocks go up and down. It's not all that surprising therefore that TD stock fell in 2022 after a run-up in 2021. Additionally, there was at least other reason for its drop.

Reason three: Higher interest rates

While the money supply increased during the pandemic, the opposite — capital tightening — occurred in 2022. The Bank of Canada raised the benchmark interest rate seven times last year. Ultimately, the interest rate jumped by 4.0% in total to 4.25%. The central bank's goal is to bring the high inflation rate down to its target range of 1% to 3%. The recent inflation rate of 6.8% in November was still too high.

Higher interest rates could drive better results for TD if it's able to get a higher net interest margin. Simultaneously, higher interest rates increase the borrowing costs of businesses and consumers. So, generally, it's a negative for the economy and the stock market, which was why stocks were generally down in 2022.

The Foolish investor takeaway

Although it had a correction in 2022, TD stock still trades at a relatively high valuation in the banking industry. Also, the capital-tightening cycle may not be over yet. Additionally, many economists predict a recession to occur this year. Even though most think it will be a soft landing, TD stock and the general market could still experience pressures in the first half of 2023.

That said, analysts believe TD Bank offers relatively high earnings-growth potential. Surely, the stock provides decent passive income from a healthy and growing dividend.

At $87.67 per share at writing, TD stock offers an attractive yield of 4.4%. And analysts believe the stock is undervalued by almost 14%. Therefore, investors can nibble some shares here and add more opportunistically on selloffs.

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