Commodity Stocks Reclaim Their Status as the Goats of the S&P/TSX Composite

Description

On a day that saw some rather bullish housing news come out of the U.S., the Canadian market just couldn't get out from under the pressure that was being applied by the market's resource related stocks.

The **S&P/TSX Composite** (^GSPTSE) declined by 0.6% as commodity related entities acted as a drag right from the get go.

One of the catalysts for today's decline was data out of China, which indicated a deepening slowdown in that country's manufacturing sector.

How quickly market participants have forgotten yesterday's proclamation by the Chinese premier that the country's economy will not be allowed to grow at a rate below 7%.

Compounding this disappointing Chinese data point was the fact that **Caterpillar** came out with a less than robust earnings report and cited the sputtering Chinese economy as a primary reason for the miss.

With Caterpillar's stock in decline, U.S. markets also fell, even though, as indicated there was some very strong data out of the housing market south of the border.

On Wednesday, news was released that new home sales in the US rose to a five year high in June, pointing to continued recovery in the US residential real estate markets.

Moreover, according to USA Today, the National Association of Home Builders/Wells Fargo builder sentiment index increased to 57 from 51 last month.

Any reading above 50 indicates positive home sales conditions, and the index hasn't been this high since 2006.

Earnings

Leading the TSX lower was **Cenovus Energy**. Cenovus' stock closed down 5.5% after it missed earnings expectations for reasons profiled in an earlier Fool.ca post.

Also hauling the Canadian index lower were the gold companies – namely **Goldcorp** (TSX:G) and **Barrick** (TSX:ABX) – and their respective declines of 4.7% and 5.4%. The gold space will be an interesting one to watch tomorrow as **Agnico-Eagle's** earnings release after the day's close may cause a stir. Agnico by the way was one of the days worst performers as well, checking in with a 6.5% decline.

Other major contributors to today's decline were **Suncor Energy** (TSX:SU) and **Imperial Oil** (TSX:IMO) with respective declines of 1.2% and 1.4% each. These stocks no doubt were influenced by the Cenovus miss, but also, the weak Chinese data had a negative impact on the price of oil. WTI oil fell by 1.8%.

CP Rail was also down on the day after it too released worse than expected earnings. These results were also profiled in an earlier Fool.ca post.

Foolish Takeaway

Once again, resources had a significant impact on our market's performance. Because of their heavy-weightings in the TSX, these stocks can be harmful for those investors that think they are well-diversified with an index fund or ETF linked to the S&P/TSX Composite Index.

We have prepared a Special FREE Report that will clue you into the perils of passively investing in the Canadian index and suggests an easy to implement alternative strategy. The report is called "**5 Stocks That Should Replace Your Canadian Index Fund**". One of these 5 is in the process of being taken over at a huge premium. You can find out who the remaining 4 are simply by **clicking here**.

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This post was created by Fool contributor Nikhil Shamapant.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:IMO (Imperial Oil Limited)
3. TSX:SU (Suncor Energy Inc.)

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Date
2025/09/10
Date Created
2013/07/24
Author
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