



Can Oil Stocks Lead a Spring Comeback for the TSX?

Description

The S&P/TSX Composite Index rose 26 points on April 16. Last week, materials and energy propped up the struggling index, as financials and other sectors continued to slump. Is it possible that the energy sector, which has weighed on the TSX since the oil crash of 2014, could lead a spring rebound?

Goldman Sachs Group Inc. said on April 12 that it expected Middle East tensions to push oil to \$72 a barrel. Protests in Iran and the purge of sections of the Saudi Arabian ruling elite by Crown Prince Mohammed bin Salman [bumped up oil prices in late 2017](#) and early 2018. Plunging inventories in recent weeks have heightened the market's sensitivity to heightened geopolitical risk.

On the evening of April 13, U.S. president Donald Trump announced that his country would [conduct strikes](#) on the Bashar al-Assad government in Syria. This was in cooperation with British and French allies. The ferocious Syrian Civil War has emerged as a battleground for the proxies of massive geopolitical rivals. The Assad government is close allies with Iran, which has been locked in an ongoing rivalry with Saudi Arabia and Israel over geostrategic position in the Middle East.

Syria and Iran have grown closer to Russia in recent years. The relationship between the United States and Russia has significantly deteriorated over the course of the past decade. The U.S., Russia, and Saudi Arabia are the three largest oil producers in the world, with Iran firmly in the top six.

President Trump has set a May 12th deadline for European signatories of the Iran nuclear deal to "fix the terrible flaws" of the 2015 agreement. The recent appointments of John Bolton as national security advisor and Mike Pompeo as secretary of state appear to signal a decidedly hawkish turn. It is highly likely that the U.S. will refuse to extend sanctions relief on Iran in the coming months. According to Goldman Sachs, this would put "several hundred thousand barrels of Iranian exports ... at risk."

Several Calgary-based energy giants have surged during the recent oil rally. **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) stock has climbed 9.9% month over month as of close on April 16. The company is expected to release its first-quarter results in the coming weeks. **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) has surged 12.6% month over month. Shares are now up 8.6% in 2018 thus far. **Encana Corp.** ([TSX:ECA](#))([NYSE:ECA](#)) has increased 4.3% month over month but is still down 9.1% in 2018 so

far.

United States U.N. ambassador Nikki Haley signaled that her country would impose further sanctions on Russia over the weekend. However, the White House walked back these comments on April 16. Nonetheless, tensions between the U.S. and its allies and the axis of Russia, Iran, and Syria have never been higher. Internal debate has continued to wage over the Iran nuclear deal, but recent appointments and Trump's historically negative stance toward the agreement do not bode well for its future.

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