5 Ways That $100 Oil Could Impact Your Portfolio Holdings

Description

This week, several experts began to circulate the theory that it may not be long before we start seeing US$100 oil in the markets.

default watermark

For some, that news may come as a shock given that it seems like we have been hearing forever now that the price for crude and other commodities, like natural gas and coal, are on a path to stay "lower for longer."

But thanks to rising geopolitical tensions in the Middle East, it would seem the focus has quickly shifted to the threat of how higher energy prices could pose a danger to the global economy.

Here are just five ways a forthcoming spike in oil prices could affect the value of your portfolio holdings.

A heyday for oil and gas exploration and production companies

The most direct and obvious impact that would result from higher oil and gas prices would be a boon for oil and gas exploration and production (E&P) companies like **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), **MEG Energy Corp.** (TSX:MEG), and **Canadian Natural Resource Ltd.** (TSX:CNQ)(NYSE:CNQ), among others.

These firms have found themselves mired in an awful slump going back to the summer of 2014, and a spike in global energy prices would be a most welcome change for them.

Canadian refineries may see the wind taken out of their sails

This year has proven to be a great period to have been invested in the Canadian refineries, as severe bottlenecks affecting the Albertan oil sands have kept prices for Canadian heavy oil depressed.

While that's bad news for the E&P companies, integrated producers like **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), which also own downstream operations, are in the enviable position to be able to take advantage of the opportunity by purchasing heavily discounted crude and converting it into higher-priced end-products like gasoline and jet fuel.

Higher energy prices would be a very unwelcome change for the auto sector

Companies like **General Motors Company** (NYSE:GM) and **Ford Motor Company** (NYSE:F) have been but a few of the indirect beneficiaries of lower oil prices going back to 2014, as lower energy costs have spurred motorists to purchase bigger-ticket items like SUVs and pickup trucks.

But if oil were to hit US$100, one of the likely consequences would be higher gas prices, and that would likely lead auto buyers to favour smaller, lower-margin, compact vehicles.

A slowdown of the big automakers could have detrimental effects on some Canadian auto parts suppliers like **Magna International Inc.** (TSX:MG)(NYSE:MGA) and **Martinrea International Inc.** (TSX:MRE).

Higher energy costs have historically been linked to higher inflation

default watermark

Energy and oil in particular isn't just an important input cost for automobiles, but it also affects nearly every other sector of the economy.

Higher energy prices would more than likely raise manufacturing costs across the board, and those higher costs would then be passed on to consumers in the form of higher prices for everyday household goods, leaving Canadians with less disposable income to spend on other items.

Higher inflation could prove to a tremendous windfall for Canada's commodity markets, but it would likely come at the expense of the rest of the economy.

Higher inflation typically leads to higher interest rates

Because inflation tends to make everyday items more expensive and reduces the purchasing power of the average household, central banks will typically take action in their policies to make sure that inflation doesn't get out of control.

One of the more common responses that a central bank will take is to raise the level of interest rates in the economy.

While that can help to curb inflation, and it can help lenders like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY), it also makes the cost of borrowing money to purchase big-ticket items like homes, cars, and electronics prohibitively more expensive.

Conclusion

At the end of the day, higher oil and energy prices — if they occur — will inevitably take money out of other sectors of the economy.

Some have suggested that many of the previous recessions have been spurred on by unsustainable energy prices, so this is certainly a factor that Foolish investors are going to want to keep an eye on.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:F (Ford Motor Company)
4. NYSE:GM (General Motors Company)
5. NYSE:MGA (Magna International Inc.)
6. NYSE:RY (Royal Bank of Canada)
7. NYSE:SU (Suncor Energy Inc.)
8. NYSE:TD (The Toronto-Dominion Bank)
9. TSX:BTE (Baytex Energy Corp.)
10. TSX:CNQ (Canadian Natural Resources Limited)
11. TSX:CVE (Cenovus Energy Inc.)
12. TSX:MG (Magna International Inc.)
13. TSX:MRE (Martinrea International Inc.)
14. TSX:RY (Royal Bank of Canada)
15. TSX:SU (Suncor Energy Inc.)
16. TSX:TD (The Toronto-Dominion Bank)

default watermark

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/08/16
Date Created
2018/05/31
Author
jphillips

default watermark

default watermark