Why the TSX May Outshine the S&P 500 Between Now and 2020

Description

Canadian investors who've kept their cash in domestic stocks have had it really rough. The **S&P/TSX Composite Index** didn't participate in the U.S. stock market melt-up in the beginning of the year, but it sure did participate in the meltdown. Talk about skipping the feast but getting indigestion anyway!

Indeed, the grass has felt much greener on the other side of the border over the last few years, and although Canadians can easily swap their loonies for greenbacks to pick up more attractive U.S. stocks, I think Canadian investors would be better off sticking with domestic stocks as the growth-to-value rotation continues to pick up traction.

U.S. stocks have been on quite the ride, but they've become a tad overpriced, as the froth was slashed off the top two times this year: this February and earlier this month. Both times tech stocks got hammered, and value stocks looked to be great again through the eyes of investors who've been high on growth for a ridiculously long time now. Growth names have been bleeding the most, and as the names continue to face pressure, we could see "boring" value stocks become the next big trade.

The S&P 500 has a considerable amount of tech stocks in its basket. The TSX, on the other hand, is mainly composed of financials and severely battered energy stocks. As a growth-to-value rotation picks up, the TSX doesn't have as much to lose, as "sexy" growth stocks are few and far between, and buried beneath the barrage of energy stocks that have been bleeding for several years.

There's deep-value within Alberta's oil patch!

A major reason why the TSX has struggled to fly is thanks to the troubled energy stocks that continue to reek of value.

Today, the price of Western Canadian Select (WCS) is trading at a record discount relative to West Texas Intermediate (WTI) due to the unfortunate pipeline bottleneck that's causing a pile-up of heavy crude with no place to go.

Can the discount become even steeper?

Probably, but it's not going to last forever as Alberta attempts to alleviate the bottleneck that's turned its oil patch into a swamp that's in dire need of draining.

At this point, any subtle improvements to outflow over the next several years will be enough to narrow the WCS-WTI gap. Such a narrowing gap would allow many beaten-up oil sands operators like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) to soar to highs not seen since before the 2014 rout.

Foolish takeaway

Many Canadian energy names may seem like dead trades today, but they'll be among the stocks that'll be least impacted in a market-wide collapse led by expensive tech names.

Moreover, new extraction technologies will allow oil sands operators to better weather the low-WCS-price environment over the next few years, so we could see a modest bounce in some of the more innovative players in Alberta's oil patch, as their operations become more economical in spite of the horrific environment for Canadian crude.

Stay hungry. Stay Foolish.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/07/28
Date Created
2018/10/20
Author
joefrenette