Here’s Why Oil Investors Had a Hard Time Staying Bullish This Week

Description

Oil stocks came down to Earth with a bump last week, with crude depressed and faith in the global economic outlook shaken. However, this week the black gold was back in investors’ good books, albeit temporarily: for a moment it looked as though oil was the designated safe haven, with banking stocks wobbling and even gold experiencing a moment of doubt, all of which was unexpected given the nervousness in the markets at the moment.

This week then kicked off with oil prices up 1% on the back of geopolitical tension and the effect of OPEC’s production machinations on the sector. The previous week’s crunch was still felt in a continued meltdown in the energy sector, though, and was widely blamed on the U.S.-China trade dispute and general bearishness in global economic growth. It served as a reminder of just how much of an impact oil has on the TSX index.

Trade war and bottlenecks don’t necessarily mean higher oil

Unfortunately, Wednesday then saw oil down yet again, with the U.S.-China spat reaching renewed levels of tension, which in turn weighed on the markets, as investors started to sense that an ongoing trade war might actually have an effect on trade. The only checks and balances keeping oil from falling further now seem to be the situation in Iran and OPEC bottlenecking.

Oil-weighted stocks have reacted accordingly: **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) started off unpopular this week, for instance, with a five-day loss of 3.3%. However, this then proceeded to give way to a 3.84% gain, following the familiar bobbing motion of a seemingly attractive stock on a dip.

Unfortunately, Canadian Natural Resources is looking at a negative outlook in terms of earnings by the end of the fiscal year, with an average analyst “hold” rating. While there may be little here to interest the capital gains investor, the income portfolio holder may be interested in the 4.23% dividend yield that would be locked in by buying at today’s prices.

Energy investors should expect ongoing oil volatility

Meanwhile, despite having shed 6.15% over the last five days, **Tourmaline Oil** (TSX:TOU) remains a moderate to strong buy, according to an average analyst consensus. Given its plunging share price and high expected growth not only in the current but also the next quarter, Tourmaline Oil is looking like a near-perfect value opportunity for dividend investors even mildly bullish on oil.

The news that oil is stabilizing at a lower price won't do much to improve Tourmaline Oil's share price, though there is always the possibility to buy low now and sell on higher oil later in the year — a distinct possibility should geopolitical bottlenecks overtake increased supplies elsewhere. At $17.70, it's way below even its low target price of $25.

Low debt, a healthy average five-year past track record in earnings growth, and a moderate dividend currently sitting at 2.27% add up to a stock that may be worth buying at its current valuation. Those dividends look fairly secure, too, since they are well covered by earnings, and should remain so for at least three years according to current projections.

The bottom line

Morgan Stanley predicted recently that deflation may keep oil depressed in the long term, suggesting that the geopolitical worries and pinched supplies that might ordinarily cause prices to rise are likely to be offset by increasing U.S. shale supplies. However, as this past week has shown, a change in any one of these factors can cause significant ripples in the TSX index, with significant losses to be felt, but also major gains to be had.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:TOU (Tourmaline Oil Corp.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/21
Date Created
2019/05/31
Author
vhetherington