2 Ways to Play the TSX If Oil Trends Higher

Description

The flight to quality continues this week as volatility in the markets continues to ramp up. The drone attack on the Saudi oil production sites has injected fresh fear into the system. While oil investors may be cheering, the rest of the market is eyeing an already depressed global outlook with caution.

Indeed, with one central bank after another slashing rates and a potentially deeper cut (as well as a Canadian one) possibly on the way, it might be safe to say that only oil and gold investors have much to cheer about at the moment.

With that in mind, let's take a quick look at an exemplary stock from each of those sectors and see if they're worth buying in the current economic climate.

A top pick for oil investors

Vermilion Energy (TSX:VET)(NYSE:VET) has outperformed the Canadian oil and gas industry in the past week, returning 9% compared to the average 3.9%. This is an interesting figure and suggests a competitive advantage – such as its famously high yield.

Indeed, oil investors sitting on their hands over the sustainability of Vermilion's extraordinary 12% dividend yield may reconsider their position if oil prices trend higher.

Vermilion is nicely diversified in terms of geographical regions, active beyond North America across Europe and Australia, where it buys and develops sites and produces petroleum and natural gas.

If higher oil continues significantly, investors may well see that high yield as increasingly reliable, while growth investors eyeing the ascendance of natural gas over coal also have a strong option here.

A sure-fire hit for gold investors

Gold is likely to rise if oil continues to trend higher. At the time of writing, oil was starting to pull back slightly, taking gold with it, when the market suddenly bounced again.

Commodity analyst Giovanni Staunovo astutely pointed out that, “Global available spare capacity is extremely low at present following the weekend attacks, leaving little room for additional outages.”

Energy investors may reasonably expect oil to trend higher in 2019; while gold aficionados might expect prices in the yellow metal to do likewise.

Newmont Goldcorp (TSX:NGT)(NYSE:NEM) is an especially good choice for long-range precious metal stockholders seeking safe-haven assets, given its sheer size and a plethora of other high-quality indicators from strategic assets to decent growth potential.

Highly productive and with operations in four continents, Newmont Goldcorp is an especially defensive play even in the classic safety zone of gold. Stacking shares in the mega-miner brings passive income, with a 1.44% dividend yield, as well as growth potential to a portfolio.

The bottom line

Energy stocks were up this week on higher oil after last weekend’s attack on the Saudi oil production sites, with oil and gas producers leading the rally.

With fear influencing the markets, gold will likely rise as investors return to safe-have asset classes that carry as little risk as possible.

Vermilion Energy is a solid enough high-yield play for higher oil, while Newmont Goldcorp is defensively large and pays a stable, if considerably smaller, dividend of its own.

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