TFSA Investors: 2 Top TSX Index Stocks That Could Deliver Big Gains in 2020

Description

The Canadian stock market is starting out 2020 at new record highs, which means there are fewer deals available than at this time last year.

Investors should be careful chasing the names that have made big moves in recent months, but some industry leaders are actually trading at attractive levels and could surprise to the upside as we move through the year.

Let's take a look at two top **TSX Index** stocks that might be interesting picks right now for a TFSA portfolio.

Nutrien

Nutrien (TSX:NTR)(NYSE:NTR) fell victim to bad weather in key markets in 2019.

The crop nutrients giant, the world's largest supplier of potash and a major producer of nitrogen and phosphate saw sales hit by an unusually wet spring in the United States and a delayed arrival of important monsoon rains in India.

Weak prices for palm oil in Indonesia and Malaysia and a delay in imports by China rounded out the rough ride, and Nutrien found itself cutting production at its Canadian facilities by the end of the year to match output with reduced demand.

The commodity markets are often volatile, and history suggests that investors who buy when these stocks are out of favour tend to be rewarded over the long term.

Nutrien is a low-cost producer and its predecessors before the 2018 merger, Potash and Agrium, completed multi-year capital programs before combining their operations.

This means that Nutrien has the state-of-the-art facilities it needs to compete in the coming decades, and investors shouldn't have to worry about the company taking on large debt or issuing new stock to raise capital for major projects.

Nutrien has the potential to generate significant free cash flow when commodity prices improve. In the meantime, however, investors get paid a decent dividend to wait for better days.

The stock currently trades near $62 per share, compared to the 2018 high around $75, so there is solid upside potential.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) trades at less than 10 times trailing earnings — the kind of multiple you might expect when the economy is in a downturn and unemployment is rising at a steady clip.

Bears will point to an increase in provision for credit losses across the Canadian banking sector as an indication that tough times are on the way for the big Canadian banks. There is some merit to the argument, and an uptick in the unemployment rate in November suggests there might be cracks forming in the economy.

Overall, however, the situation appears relatively stable and the fear that is built into the stock price of CIBC might be overdone.

The recent rebound in the housing market should start to show up in the results in the coming quarters. Bond yields have dropped, which is allowing the banks to offer more attractive pricing on fixed-rate mortgages. This helps new buyers on the margins get into the market while enabling current mortgage holders to renew at decent rates.

The end result could be an extension of the Canadian debt bubble, and while that is certainly a risk to consider, the Canadian banks should benefit in the medium term.

CIBC remains very profitable, and its solid capital position should ensure that it can ride out the next downturn.

Investors who buy today can pick up a 5% dividend yield and could see the stock catch up to its peers once the current market jitters surrounding the banks subsides.

The bottom line

Nutrien and CIBC are top-quality companies trading at attractive levels. If you are searching for contrarian picks to add to your TFSA in 2020, these stocks deserve to be on your radar.

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1. Bank Stocks
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2. NYSE:NTR (Nutrien)
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