



## Why the TSX Could Beat the S&P 500 in the Next Decade

### Description

The 2010s wasn't the best decade for the **TSX**. While the **S&P/TSX Composite Index** posted an average annual gain of 3.9% for the 10 years to December 2019, the **S&P 500** rose 11.2% per year on average. Plus, the TSX outperformed the U.S. Index in only two of the past 10 years, in 2010 and in 2016.

### Why the TSX had lowers returns than the S&P 500 in the 2010s

The underperformance of the TSX relative to the S&P 500 can be explained mostly by the major presence of resources in the TSX.

After the financial crisis of 2008, investors were looking for stocks that could grow quicker than the market. The U.S. market was thus dominated by high-tech and high-growth stocks. **Apple**, **Amazon**, **Microsoft**, and **Alphabet** were the top four contributors to the S&P 500 returns in the last 10 years.

On the other hand, the Canadian index had very few [tech stocks](#) and was more concentrated in energy and materials stocks, which accounted for nearly half of the stock market's total value in the 2010s. The fall in energy and metals prices put downward pressure on the TSX.

In the energy sector, advances in the exploitation of shale reserves in the United States have resulted in increased production of oil and natural gas, which ultimately overwhelmed global demand.

The price of oil, which spent much of the first years of the decade at around \$100 a barrel, plunged about five years ago and never recovered, sending shares of Canadian energy producers on a dizzying fall.

What drove the TSX returns were mostly [dividends](#) and bank stocks, which replaced resources stocks as main drivers of the Canadian market. The Big Six Banks (**Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada** and **National Bank of Canada**) contributed to more than half of the returns generated by the TSX in the last decade.

Canadian investors like bank stocks because they give them safe growing dividends with attractive yields and steady share price performance over the long-term.

As the population is aging and their need for income is growing, the demand for high yield is unlikely to stop. But the low growth in earnings and the huge household debt could prevent the big banks from boosting the TSX's future returns.

## Why the TSX might beat the S&P 500 in the 2020s

The TSX looks better positioned for the 2020s than it was for the 2010s, as the index is now less concentrated in resources and more diversified.

Valuations in the energy and mining sectors are very low. **Cenovus Energy, Baytex Energy, Silvercorp Metals**, and **Centerra Gold** have five-year expected PEG of below 1, which means that their price is low regarding their future growth rate.

In fact, the overall Canadian market is cheap. The forward P/E for the TSX is currently about 16 times estimated earnings for Q4 2020, while the S&P 500 has a forward P/E of 19.2.

This gap hasn't been that wide for several decades. The TSX valuation makes it attractive, so it could outperform the S&P 500 in the next decade.

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