Don’t Let the Market Rally Fool You — Especially These 2 TSX Stocks

Description

Even if major economies are re-opening after days of lockdowns, it could take time to get things back to normal — or a new normal. Business activities would most likely remain subdued as the sentiment of fear and uncertainty dominate in the near future. That said, almost all the major financial markets continued to rally recently.

The **TSX Composite Index** has exhibited a stable recovery since last month, surging more than 30% from its 52-week low in March. Notably, the recent stock market rally seems unwarranted mainly due to potential lower corporate quarterly earnings.

The broader markets might not hold on these gains amid the deeper impact of lockdowns and downbeat outlook from the companies for the rest of the year. Investors should also note that market participants are expecting Q2 2020 earnings to be uglier than Q1.

Energy sector amid the market rally

Notably, the energy sector was also a part of this recent broad market rally. Canadian Energy stocks have seen massive surges recently, ranging from 50% to even 100% from their recent lows.

Amid this market rally, **Husky Energy** (TSX:HSE) stock has surged 60%, while **Cenovus Energy** (TSX:CVE)(NYSE:CVE) stock has doubled from its 52-week low last month. The Canadian energy sector witnessed a downward pressure when crude oil prices plunged into negative territory last week, but they have managed to fare a bit better.

The short-term outlook for the energy sector is gloomy and things are expected to deteriorate further. Thus, Cenovus Energy suspended its dividends and further cut its capital spending for 2020 to retain cash.

Calgary-based integrated oil company Cenovus will report its first-quarter earnings on April 29. The earnings are estimated to be lower, and a significant drop could drive the stock lower.

In the case of Husky Energy, it also cut capital spending for the current year in order to survive the challenging times. It surprisingly held on to its dividends. However, cutting quarterly dividends would have saved approximately $125 million more and could have further strengthened its balance sheet. If things wane further, suspension or cutting dividends could be on the cards for Husky.

Husky will also report its first-quarter earnings on April 29. It will be interesting to see how deep the COVID-19 and volatile oil prices have dented its financials. Similar to peer energy companies, lower-than-expected earnings could make the Husky Energy stock notably weak amid the market rally.

Is more correction in the cards?

Husky and Cenovus Energy stocks might look attractive based on their respective historical valuations amid this market rally. However, it would be imprudent to consider the company's 2019 earnings.

Investors should note that this year's earnings are expected to be notably lower year over year, forcing these stocks correct further.

Husky and Cenovus Energy's Q1 earnings will make things clearer and pave the path for their stocks going forward. Strong balance sheets and government aid are some of the factors that could keep things going for struggling energy companies. However, lower oil prices for a longer period could make the picture bleaker and could keep investors at bay.

CATEGORY

1. Coronavirus
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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Author
vinitkularni20