



TSX Energy Stocks' Rally Continues and Bears Run for Cover

Description

The **TSX Composite Index** has staged a steady recovery in the last two months and has soared 35% from its recent lows. The surge was particularly notable, as market participants seem to have ignored rising recession jitters and record unemployment. One big contributor in the current market rally that has defied any such concerns is the energy sector. TSX Energy stocks at large have surged more than 60% from their record lows in March, notably beating the broader markets.

TSX energy stocks rally amid uncertainties

Interestingly, the surge has come when the entire Canadian energy sector is reeling under severe pressure. Many TSX energy companies reported record quarterly losses in the first quarter of 2020. Apart from the dwindling bottom line, suspending earnings and production guidance for the entire year have added to the uncertainty. Many bigwigs have cut or completely suspended dividends and severely slashed capital spending for the year.

Notably, these measures have become the new normal, painting the bleaker picture of the entire energy landscape. Top Canadian integrated energy giant **Canadian Natural Resources** reported a loss of \$1.3 billion in the first quarter. While cutting the capex for the year, it maintained dividends and surprised many.

Suncor Energy also reported steep losses for the quarter and trimmed dividends by 55%. Relatively smaller peer **Cenovus Energy** suspended dividends amid the deteriorating scenario of the energy sector. Despite all this gloom and doom, TSX stocks like Canadian Natural and Cenovus Energy have more than doubled in the last two months. Interestingly, that even outperforms the crude oil in the same period. So, why did TSX energy stocks rally? And will the rally last?

Why did stocks rally?

WTI crude oil prices plunged into negative territory last month, forcing many to think about what could possibly go wrong next. Market participants breathed a sigh of relief after oil's steady recovery, hinting

that it might have hit the bottom. Additionally, major economies re-opening after lockdowns paint a rosy picture for oil demand. OPEC production cuts along with Canadian and U.S. companies trimming their output might help stabilize the oil demand/supply equation to some extent.

One trend that's emerging after the pandemic and helping crude oil is completely avoiding public transportation. Social-distancing practices, along with the virus fear, is forcing citizens to use private transports to commute. This might increase crude oil demand in the near future, as economies lift lockdowns. It will be interesting to see how the trend shapes up.

TSX stocks: Will the rally last?

But does this justify TSX energy stocks' rally? Will oil be able to hold on to gains? I believe that would have to be a "no" if we dig a little deeper. The crude oil supply glut still remains one of the major problems for the industry. Despite production cuts, the demand chunk that has vanished due to the pandemic-driven lockdowns remains significantly high.

The International Energy Agency [expects](#) a 6% decline in energy demand this year, its steepest decline in 70 years. Also, amid the declining demand, the entire energy sector has stuck with storage issues as slower but steadier supply comes in.

The short- to medium-term outlook for the energy sector remains gloomy. How things turn out on the oil demand front after the pandemic will clear waters to a certain extent. However, until then, there is a tremendous amount of uncertainty that will drive the energy sector. While there seems a limited upside for the [TSX energy stocks](#) from here, uncertainty might weigh on them in the near future.

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