Oil Crash Caused This Shocking Change to the Dow Index

Description

The **Dow Jones Industrial Average** (the "Dow"), a commonly followed equities index and barometer of the broader U.S. stock market, has a new look. Effective August 31, 2020, **ExxonMobil, Pfizer**, and **Raytheon Technologies** are no longer constituents of the Dow.

Changing with the times

The Dow measures the stock performance of 30 large publicly-listed companies. This blue-chip index weights its members by price rather than market value. The latest shake-up somehow reflects the market reality in 2020. **Salesforce.com**, **Amgen** and **Honeywell** replace the three underperforming or struggling stocks.

Some observers believe the changes make a lot of sense because it brings the Dow closer to the present day's economic realities. The index is now in tune with the new economy. Salesforce adds another tech stock, while the Dow's exposure to health care increases with Amgen. The industrial sector gets representation through Honeywell.

Exxon has been a Dow constituent since 1928, although the energy sector is a declining portfolio this year. With its exit from the elite index, **Chevron** becomes the sole representative of the energy sector. The Index committee sees oil producer Chevron as fundamentally sound compared with Exxon.

Canada's headline index

In Canada, the headline index for the equity market is the **S&P/TSX Composite Index**. The index undergoes a review quarterly such that there could be additions or removals too. There are 11 categories of stocks where the financial market represents 28.6% of the TSX.

The energy sector, which composes 13.5% of the index, is dragging the market because of the 2020 oil crash. As of August 31, 2020, the **TSX Energy Capped Index** is down 38.8% (one-year performance). The COVID-19 pandemic, along with plunging oil prices, weighed heavily on energy stocks.

Beaten-down energy bellwether

Erstwhile sector bellwether **Suncor Energy** (TSX:SU)(NYSE:SU) is unlikely to be kicked out from the TSX despite the underperformance in 2020. This $31.92 billion integrated energy company belongs to the Big Ten Canadian oil and gas companies. It's second to **Enbridge** in terms of market capitalization.

Suncor focuses on developing petroleum resource basins in Canada's Athabasca oil sands. The company engages in the exploration, acquisition, development, production, refining, transportation, and marketing of crude year. However, the stock performance this year is forgettable, especially for income investors.

Suncor slashed its dividends by 55% in May 2020. The company reported a $309 million operating loss in Q1 2020 compared to operating earnings of $1.21 billion in Q1 2019. In Q2 2020, its operating loss widened to $1.49 billion versus the $1.25 billion operating profits in the same period in 2019.

At the current share price of $20.93, Suncor investors are losing by 49.77% year-to-date. The price, however, is ridiculously low and should be a good entry. Meanwhile, the dividend offer is 4.01%, although analysts warn of energy companies' short-term risks.

Indirect "buy" recommendation

Should investors avoid Suncor Energy because of the barrage of damage to the energy stock? Perhaps you can take a cue from Warren Buffett's latest move. Rather than dumping the stock, the billionaire investor increased his stakes to $19.4 million shares at the end of March 2020, indicating that Suncor has long-term value.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/18
Date Created
2020/09/04
Author
cliew