



Canadian Oil Stocks: More Upside Than Tech in 2021?

Description

It's a bold suggestion, but let's explore an unlikely growth thesis for a moment. If the stars align in oil's favour, next year could be a big one for Canadian hydrocarbons. This space has been thoroughly chewed up by a convergence of destructive market forces. From green energy tailwinds to demand destruction, oil is in pretty bad shape. But if a handful of events come together at the same time, oil could rocket in 2021.

Forget tech stocks and watch this space

Okay, so certain trends in tech aren't going anywhere any time soon. Consider such secular growth areas as e-commerce, the digitalization of shipping, or the work from home thesis. But tech stocks – like cannabis stocks in previous years – have enjoyed a level of positive momentum that [may prove unsustainable](#) next year. The markets have already witnessed a number of pullbacks in tech names.

But that need for momentum is always there. Investors are going to run names and pile on for the upside – it's just a natural function of the markets. So could oil be next on the momentum calendar? Investors have already seen what can go wrong with oil stocks. But – just for a moment – let's consider what could go right.

What if oil recovered next year?

Names like **Canadian Natural Resources** could find themselves at the centre of a growth trend in 2021. In just over a week, Canadians will find out whether they can expect a pro-oil administration south of the border. But other factors could also buoy oil stocks.

Oil prices could rise on demand creation. That's not too hard to imagine, considering that the sector is in the gutter right now. An end to the pandemic – or even a significant breakthrough in terms of a vaccine – could see per barrel prices rise. The return of market bullishness and an upturn in consumer sentiment are also likely to see rising demand.

While it's not something to wish for, an increase in international tension also has the potential to lift oil. Consider cuts in supply – recent years have seen a couple of notable bottlenecking incidents, for example. And while that's not a sustainable situation, a longer-lasting oil price recovery could come from an OPEC+ decision to reduce output.

This week started on a sour note, as investors were wrong-footed by a landmark merger in the Canadian oil space. Indeed, any further deterioration in this space could lead to a period of market-redefining M&A deals. It was a case of a receding tide stranding all boats, with red ink splashed across the oil and gas sector. Bellwether stocks reacted: CNQ was down 3.9%, while **Enbridge** lost 1.9%.

But a recovery could see wild momentum in this space, even if it's shortlived. The only question is whether such an alignment of stars as laid out above could occur. In [less than a fortnight](#), Canadian oil investors will know a little more about what the future could hold. For now, though, these stocks are dirt cheap, and could make for a speculative play on a surprise recovery further down the pipeline.

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