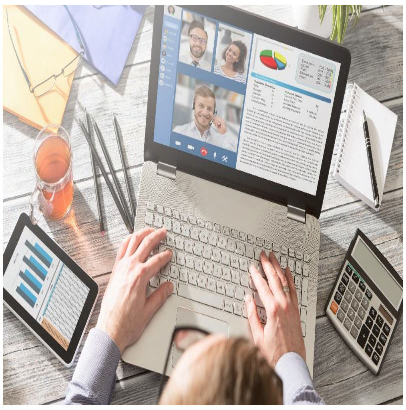

Watch This 1 Thing for a Santa Claus Stock Market Rally

Description

Forget oil prices. Forget retail sales figures. The one thing that will determine the state of the stock market at the turn of the year will be U.S. stimulus measures. Of course, Canadian fiscal stimuli also loom large on **TSX** investors' wish lists this holiday season. But a Santa Claus rally will depend in large part on whether the U.S. government finds itself on the naughty or the nice list.

Take U.S. House Speaker Nancy Pelosi's suggestion late last week that stimulus negotiations could drag on through the holiday period. It was enough to put a damper on equities, and the TSX closed the week on a sour note. And yes, as touched upon above, consumer sentiment and oil prices could also factor into a year-end slump. However, it looks like Americans might be getting a check in the mail after all.

Sentiment predicts the energy market

Oil-heavy energy stocks are still among the worst performers on the TSX for the last 12 months. Look at such names as **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), down 22% year over year. Even worse, consider the share price performance of **Suncor Energy**, down 47% since last December. **Enbridge**, one of the widest of wide-moat picks in any sector of the TSX, is negative by 16% on average in the last 12 months of trading.

These valuations could fall farther if the markets continue to deteriorate. But this just makes the value investing case even stronger for these names. While the widely accepted Democrat win south of the border backs up a green power thesis, oil could come back stronger upon a reopening.

An end to the pandemic, a resurgence of consumer spending, maybe even a regional bottleneck or two – all could contribute to an oil bull market.

Watch these stocks for a recovery

So let's look again at those three beaten-down TSX energy stocks. All three names are hot picks for the strict value investor. Never mind those high P/E ratios, since earnings are in tatters this year. A more integral indicator of real-world valuation arguably exists in the P/B ratio.

Look at CNQ's price to book of just 1.1. Even the super wide-moat midstreamer Enbridge trades at 1.5 times book, while Suncor trades at book value.

Dividend yields are correspondingly attractive. Consider CNQ's rich yield of 5.3%, or Enbridge's even richer 7.8% distribution. Even Suncor's 3.6% dividend is looking tasty at the moment. These are also comeback stocks to add to a watch list, with the potential to recover as economies start to reopen. Depending on how the pandemic is tackled in the New Year, upside in the near-term could be steep.

In summary, a Santa Claus market rally – if it happens – is likely to be seen first in energy stocks. This asset class has become a bellwether in a highly volatile year. In particular, hydrocarbon fuel stocks are highly vulnerable to destructive market forces.

If there is going to be any respite before the end of the year, energy stocks will feel it first. Investors should also watch this space full a full-throated recovery if – or rather when – it happens.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/07/26
Date Created

2020/12/17
Author
vhetherington