TFSA Limit Increased by $6,000 for 2021: 2 Top Stocks to Buy Now

Description

The Tax-Free Savings Account (TFSA) A limit increase is $6,000 for 2021. Investors with some cash available are wondering which top stocks should be on their TFSA buy list.

Market outlook for 2021

The U.S. markets are trading near record highs to start 2021 and the **TSX Index** is close to the 12-month peak it hit just before the pandemic crash. Aggressive government intervention provided financial assistance to businesses and households in 2020, resulting in a dramatic recovery in the stock market. COVID vaccine success is largely responsible for the extended surge in the past few months.

Will the stock market rally continue?

As we begin 2021, the broader stock market appears fully valued, if not overbought. Investors anticipate the vaccine rollouts will open up the economy and drive down unemployment in the coming months. This is likely to be the case, but much of the good news is already priced into stocks today.

Given the high valuations, investors should prepare for a meaningful correction in the next few months. Chasing the big 2020 winners at current prices could be risky.

That said, many stocks that took the biggest hits in 2020 remain oversold. Some of these names offer attractive dividends and might get extremely cheap on a market pullback.

Let’s take a look at two stocks that already appear attractively priced and should be great picks for a TFSA investment in 2021.

Should Canadian Natural Resources stock be on your TFSA buy list?

Canadian Natural Resources Limited is primarily known for its oil production, but the company is also a major natural gas producer. Natural gas prices avoided the big crash that oil suffered in 2020, helping CNRL weather the downturn.

Oil prices recovered through the end of 2020 and West Texas Intermediate (WTI) oil now trades near US$48 per barrel. CNRL's operating breakeven price is close to WTI at US$30, so the oil production business has the potential to generate decent profits at current oil prices. The company increased its anticipated capital program when it released the 2021 budget last month. This means management has a positive view on cash flow.

CNRL pays an attractive dividend that should be safe and offers a 5.5% yield. At the time of writing, TFSA investors can buy the stock near $31. The shares traded for $41 a year ago, so there is decent upside potential as the global economy recovers.

Is TC Energy stock too cheap to ignore?

TC Energy (TSX:TRP)(NYSE:TRP) normally shows up in the headlines when news emerges about its troubled Keystone XL pipeline development in the United States. The Obama administration cancelled the project. Trump gave it the green light, but Joe Biden is expected to kill it again.

While Keystone XL is a large project, it is just one part of TC Energy's massive development portfolio that also includes natural gas transmission and power generation initiatives. In fact, TC Energy continues to move forward on an industry-leading $37 billion in secured capital projects.

Cash flow should rise steadily as new assets go into service. TC Energy plans to raise the dividend by 8-10% in 2021. Distribution hikes in 2022 and beyond should be in the 5-7% range. That's great news for TFSA investors who want reliable and growing income from their holdings.

TC Energy appears oversold near $52 per share and the dividend provides a 6.25% yield at this price. The 12-month high on the stock is above $76. It wouldn't be a surprise to see TC Energy move back to $65 per share in 2021.

The bottom line on TFSA investing

CNRL and TC Energy look reasonably priced right now. The companies are industry leaders and pay attractive dividends. If you have some cash available for the TFSA limit increase in 2021, these stocks deserve to be on your radar.

CATEGORY

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2. Energy Stocks
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2. NYSE:TRP (Tc Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
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