Could the TSX Index Finally Beat the S&P 500 in 2021?

**Description**

After a strong start to 2021, the **TSX Index** may finally have what it takes to beat the pricey U.S. indices for the year. The energy sector took a brunt of the damage last year, and with the prospect of a potential growth-to-value rotation, there's no question that the resource-heavy perennial underperformer that is the TSX may actually have a puncher's chance to beat the **S&P 500** or even the white-hot **Nasdaq 100**, two indices that have been far more resilient amid the crisis.



## Could 2021 be a big year for the TSX Index?

With a strong economic recovery on the horizon and an index that barely nudged in the green last year, the TSX definitely seems like it has more room to run than its peers to the south. A continued recovery in the oil patch could propel the TSX and the loonie to new heights in the new year.

That said, the Canadian dollar, also known as the petrodollar to some, and the energy-weighted TSX Index could be at risk of a vicious retracement in a drastic worsening of this pandemic. Add the continued rise of green energy into the equation, and it becomes more apparent that the TSX Index may still be at increased risk of being left behind.

At this critical market crossroads, I certainly wouldn't bet on the TSX Index outperforming the S&P 500 this year, unless, of course, we're in for a tech-driven market crash, which would mostly spare the tech-light TSX. While the TSX Index ETFs like the **Horizons S&P/TSX 60 Index ETF** (TSX:HXT) or mutual funds may seem intriguing given the recovery trajectory, I still think they're investments that are unworthy of your portfolio, even if you're a raging bull on the fossil fuels.

## The TSX Index remains an unsuitable investment on its own

The TSX Index, on its own, remains way too undiversified to overweight your funds in. While it's great to see the rise of low-cost passive investing, many Canadians, I believe, are at risk of improper diversification with an overweighting in the Canadian index. The domestic indices are just too overexposed to the fossil fuel and financial industries, the former of which found itself on the wrong side of a long-lived secular trend.

For those who are raging bulls on the recovery prospects for energy and the big banks, though, plays like the HXT may make sense to own alongside an already diversified portfolio. On its own, though, it's to be avoided because of its overdependence on commodity prices, which remains ridiculously difficult to project, especially given the continued rise of renewable energy plays.

Moving ahead, I think the oil stocks could correct upwards at the expense of many overvalued green energy plays (think **Tesla**). While such a recovery could mean it'll be a big year for the TSX, I'd much prefer Canadian investors pick their own stocks, as it's vital for one to pick their spots carefully in this pandemic-plagued market, rather than settling for what the index has to offer and the exposure it'll give you.

## Foolish takeaway

After such a brutal year for the energy patch, betting on the TSX Index outperforming the frothy S&P 500 doesn't seem too far-fetched as it used to. The tech-light TSX will mostly be spared if you're worried about the second coming of a 2000-style tech crash and will benefit greatly from a continued recovery in WTI prices.



That said, if you're keen on betting on the HXT or any other TSX index fund, I'd strongly encourage you to treat it as a thematic sector ETF, as it won't provide the diversification (or growth) you'll need to get satisfactory results over the long haul.

As for the TSX Index beating the S&P 500 this year, I'd still say it's unlikely.

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