Buy Alert: Value Stocks Are Beating Tech Stocks This Year!

Description

2021 is shaping up to be the “year of value.” In the past few weeks, the TSX and the Dow have outperformed the NASDAQ, which is down 7% from its all-time high. With the end of the COVID-19 pandemic in sight, value stocks are rallying. In this article, I’ll explore a few key sectors that have been outperforming this year and whether they’re still buys.

Energy stocks soaring

Energy stocks have been delivering solid returns this year, driven by surging oil prices. The **Vanguard Energy Index Fund** is up 34% for the year and shows no sign of slowing down. One Canadian stock that is benefitting from the strong oil prices is **Suncor Energy** (TSX:SU)(NYSE:SU). As a company that operates gas stations and sells petroleum, it directly benefits when oil prices are high. According to company statements, Suncor needs $35 oil to break even. Currently, WTI crude is $60.44. At this price, Suncor is likely to deliver positive profits, marking a recovery from its string of four consecutive net losses in 2020.

Bank stocks doing A-OK

Banking is another sector that’s doing well in 2021. Most of the top Canadian bank stocks set new highs this year, following months of negative returns during the COVID-19 market crash.

Consider **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), for example. Up 15% for the year, it has set new highs. In 2020, the stock declined precipitously amid the COVID-19 market crash. The pandemic increased the bank's credit risk, which forced it to increase provisions for credit losses (PCLs). That caused earnings to decline. Later, however, the risk factors were reduced, and TD's earnings start climbing again. In the fourth quarter, it got a $2.5 billion windfall from the sale of TD Ameritrade to **Charles Schwab**. In the first quarter of this year, Schwab contributed $209 million in net income to TD Bank. As a result of the deal, TD Bank is now the single largest shareholder in the world's largest brokerage company. If the COVID-19 pandemic ends soon, then TD has a bright future ahead of it.

Tech slumping

The rallies observed in energy and bank stocks have been something to behold. But one sector hasn't been so fortunate: big tech. Currently, the NASDAQ is barely up for the year. It is down about 7% from its all-time high. Most of the big-name tech stocks are way down from their highs for the year.

Consider **Shopify** (TSX:SHOP)(NYSE:SHOP) for example. Down 27% from its all-time high, and 2.5% for the year to date, it has been hit hard by the tech selloff. That's not for a lack of good results. SHOP's most recent quarter had 93.5% revenue growth and positive GAAP profits. The company has been performing better than ever. Yet investors expect the party to end. When retail businesses are allowed to re-open, the online shopping frenzy that drove Shopify's surging profits is likely to end. Thus, SHOP's revenue growth could decelerate in the year ahead. If the deceleration is bad enough then the stock's current valuation will look unrealistic. So, investors are selling SHOP in anticipation of a 2021 that will be much tougher than 2020 was.

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