Wise Money Tip: The $3.2 Trillion TSX Is the Market to Invest in Today

Description

Statistics Canada reports that the Canadian headline equity market is on pace to post the highest inflows from abroad since 2017. Foreign investors are returning to the more-than-$3-trillion TSX in droves. Over the last two years, these overseas investors were sellers more than buyers.

Now, the situation has reversed. On April 30, 2021, the total inflows reached $22.7 billion. One reason for the heightened interest is the increasing number of large-cap tech stocks. In 2020, the IT sector was the top performer, led by tech sensation **Shopify**.

The exodus back to Canadian equities is a clear sign the TSX is the place to invest your money right now. As economic growth accelerates in the post-pandemic, sectors such as financial, materials, and energy benefit the most. Likewise, the earnings power of companies should return. If you were to invest in stocks, now is an excellent time.

Bright outlook

Last year was a bummer because of the COVID-19 pandemic. The TSX's percentage gain in 2019 was 19.13% — a gain of 2,740.17 points. Market analysts predicted a banner year in 2020, but it was not to be. Instead, Canada's primary stock index advanced by only 2.17%.

In 2008, during the financial crisis, the loss was 35.03%. However, the TSX stormed back with a 30.69% gain in 2009. On June 21, 2021, the TSX closed at 20,156.40, or a +16% year-to-date gain. The trailing one-year price return is 30.26%.

Thus far, in 2021, the energy sector is the frontrunner with its 54.1% year-to-date gain. None of the 11 primary sectors are in negative territory. Also, seven sectors are up more than 15%. The current prediction is that the TSX will end between 21,700 (minimum) and 24,500 (maximum) in 2021.

Superior choice

Royal Bank of Canada (TSX:RY)(NYSE:RY) remains the superior choice for dividend investors. Canada's largest lender and the second-largest publicly listed company on the TSX is for keeps. Like the broader index, the blue-chip stock outperforms (+22.84%) so far this year.

During the health crisis, the Office of the Superintendent of Financial Institutions (OFSI) banned executive compensation hikes and dividend increases as well as common share buybacks. The OFSI wants to make sure banks and insurers are stable. It won't lift any of the restrictions until lockdowns subside.

In Q2 fiscal 2021 (quarter ended April 30, 2021), RBC's net income rose 167% to $4 billion versus Q2 fiscal 2020. The $179.56 billion bank has $9.9 billion in excess capital above the industry standard floor of 11%. During the earnings call, RBC's CEO, David McKay, said he expects to use accelerated buybacks to return capital to shareholders.

McKay added, "It's great to have the luxury to see accelerated organic growth to increase our dividend based on current core earnings, and to return increasingly excess capital to our shareholders." Investors should welcome the news that dividend growth is forthcoming. At $126.26 per share, RBC pays a decent 3.43% dividend.

Best sector for your money

The best sector to invest your money in today is banking, because RBC and the rest of the Big Five banks are oozing with cash. Barry Schwartz, Baskin Wealth Management's chief investment officer, says that investors should expect large dividend increases, as the lenders aim for the target. Analysts believe OFSI will lift the restrictions later this year.

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