



TSX Stocks: Should You Play the Commodity (Super) Cycle?

Description

The commodity super cycle looked evident early this year. All the major commodities were in high gear on the back of stimulus packages coupled with economic reopenings. However, things are not that promising today as they once seemed, even as we move closer to the end of the pandemic. So, should you jump on board and play TSX commodity stocks? Will they really be worth the risk?

TSX stocks and the commodity rally

Materials and energy stocks contribute almost 25% to the **TSX Composite Index**. Therefore, if commodity prices increase, so will the underlying stocks, which will push the TSX further higher.

Robust demand from Chinese manufacturing and steel-making industries markedly boosted commodity prices early this year. It hinted at the beginning of a super cycle, like one it fueled in the early 2000s.

Notably, copper prices soared almost 40% through May this year but have been trading subdued since then. Almost all base metals have shown a similar trend in 2021.

That's mainly because China, the most important consumer of copper and steel globally, is [expected](#) to see comparatively slower growth in the second half of this year. Slowing industrial growth, lacklustre infrastructural spending, and stringent environmental regulations are some of the factors slowing China's growth.

TSX copper stocks

Here in Canada, not surprisingly, commodity stocks maintained a decent momentum almost throughout the first half of 2021. Leading copper and nickel miner **First Quantum Minerals** ([TSX:FM](#)) saw significant growth this year.

Its revenues zoomed 60% year over year in the first half of 2021 against the same period last year.

Moreover, its quarterly profit reached levels not seen in the last 10 quarters. However, as the copper started trading weak, FM stock has fallen almost 25% since May 2021. Notably, the stock is sitting on handsome gains of 125% in the last 12 months.

At the same time, copper and zinc producer **Teck Resources** ([TSX:TECK.B](#))([NYSE:TECK](#)) stock is up 90% since last year. It has rallied on superior earnings growth and rising commodity prices.

Crude oil and natural gas have also been on a roll this year thanks to the aggressively recovering demand but not-so-aggressively recovering supply. Oil is up a massive 50% this year, marking a solid recovery from last year's weakness. Canadian energy players have, thus, created robust gains for shareholders since last year.

For instance, **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) stock has returned 60% in the last 12 months. Canadian oil and gas players have seen a remarkable recovery in their free cash flows amid improved production and higher oil prices. Some even see crude oil reaching US\$100 per barrel this year, driven by superior demand growth.

Commodity stocks generally provide an effective hedge when inflation is rising. So, they tend to outperform overvalued, [high-growth tech stocks](#) in such an expansionary environment. However, note that base metal stocks at large currently look expensive from the [valuation standpoint](#) and might have a limited upside from their current levels.

Bottom line

Even if China might not drive commodity super cycle this time, demand could continue to rise driven by renewables and the global economic growth. Copper players could see significant traction driven by the rise in EVs.

So, in a nutshell, commodity prices could again turn upwards due to reopenings and infrastructural spending. However, conservative investors should remain cautious, because of the valuation concerns and volatility.

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3. TSX:CNQ (Canadian Natural Resources Limited)
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Author

vinitkularni20

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