These 2021 Winners Could Rocket Higher in 2022

Description

Many 2020 and 2021 winners have been treading water in recent weeks. Most notably, the expensive tech trade has soured, with Cathie Wood's ARK Invest line of ETFs tumbling at a rapid rate. Indeed, such tech stocks could continue to fall out of favour to value names and dividend payers. Pending a surprise round of COVID lockdowns that could cause a recession, rates are going to rise this year. Many investors have braced themselves accordingly by taking profits right off the table of some of their top tech winners. Do all 2021 winners need to be sold or trimmed for the new year, though?

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Depending on who you ask, expectations for 2022 are low. That said, there's a chance it could be far better, like 2021, than expected, especially if COVID is conquered, inflation is tamed, and economic growth is better than expected, with no need for a more aggressive rate-hike schedule. Although there are prominent risks on the table going into the new year, it's easy to forget that things can also go right. Positive surprises can still happen, and they're likelier to give lift to the broader stock markets when almost everybody else on the Street is either bearish or overly pessimistic.

Sure, valuations in the U.S. are frothy, but does that mean there's zero value to be had?

Probably not. Further, a vicious market crash or correction isn't the only way that Mr. Market can "correct" his pricing mistake. Earnings may just need a chance to catch up to today's multiples. A stagnant market isn't what anybody wants, but still, a correction may be further off than many expect, even if it has been quite a while!

You should proceed cautiously in 2022 and not assume continued outperformance from markets, and many 2021 winners will continue. That said, there are a class of names that were strong in 2021, with multiples and fundamentals that leave much more room for upside this year. I'm not talking about the high-growth tech stocks that have been battered lately. I'm talking about the names that find themselves at the intersection between momentum and value.

Value and momentum could help investors beat this market in 2022

Enbridge (TSX:ENB)(NYSE:ENB) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) are two solid performers in 2021 that aren't as expensive as they could be, given the favourable environment that could remain, even as the rug is pulled from underneath most other sectors. Energy and financials flexed their muscles last year. Could they continue to do so? I'd argue, yes.

Enbridge is a dividend heavyweight that investors can rely on, even through tough times, as we saw over the past three years. The 7% dividend yield is on good footing, and it's likely to grow in time. Further, the energy environment has gone from horrid, going negative in 2020, to hot, with WTI bouncing above US$75. Arguably, the fossil fuel plays could continue to surge as energy prices boom. If the right cards fall into place in 2022, I wouldn't at all be surprised to see the energy sector climb much higher.

As a cash flow-generative dividend behemoth, Enbridge is one of my top picks while the dividend yield is still swollen.

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Similarly, Bank of Montreal could continue to benefit as the broader financial sector lifts off ahead of much higher rates. With a nice acquisition in Bank of the West and a brilliant management team that couldn't be more confident in the future (firms don't just hike dividend payouts by 25% for no reason!), BMO is also a standout play to crush the TSX in 2022!

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