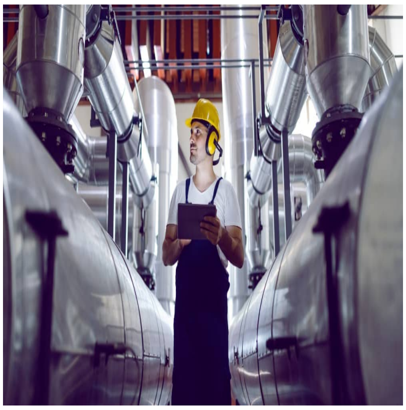

Will the TSX's Energy Sector Be a Back-to-Back Winner in '22?

Description

The financial world will remember 2021 as the year when the TSX set a new all-time high amid a lingering pandemic. Canada's primary equities market closed at 21,717.20 on November 16, 2021. Many thought the index would match or outdo its performance in 2009 or the post-financial crisis.

The TSX finished last year with a total return of 21.74% versus the 30.69% overall gain 12 years ago. Fortunately, the worst-performing sector in 2020 made a spectacular comeback. Energy outperformed the 10 subgroups and the broader market by a mile, with its nearly 80% total gain.

The real estate (+33.14%) and financial (+31.62%) sectors were second and third. Technology (+16.39%), the top performer in 2020, placed seventh after consumer discretionary (+17.40%), telecom services (+19.18%), and consumer staples (+20.60%). Industrials (+15.84%), utilities (+7.47%), and materials (+2.40%) ended in positive territory, while healthcare (-23.59%) was the only losing sector.

Oil prices rose by 57% in 2021, and it was the why energy companies regained lost ground. If the upward trajectory continues, the energy sector could achieve back-to-back wins in 2022.

Top performers

At the close of 2021, many of the top 40 performers are energy stocks. **NuVista Energy**, **Baytex Energy**, **Pipestone Energy**, and **Crew Energy** delivered gains of more than 220%. Big names like **TC Energy**, **Pembina Pipeline**, and **Suncor Energy** are not in the top 100, although nearly all energy companies are flush with cash.

The oil slump in 2020 is now a thing of the past. Investors are returning in hordes to Canada's energy sector to ride on the momentum and for outsized gains. Because of growing free cash flows, dividend payers are rewarding shareholders with higher dividends. Companies that suspended dividends will resume the payouts, while others contemplate paying dividends soon.

In early December 2021, **JP Morgan** Global Equity Research said oil prices could overshoot US$125 per barrel this year and US$150 in 2023. The reason is the capacity-led shortfall in OPEC+ production.

The American bank forecast global oil demand in 2022 to 2023 to be between 99.8 and 101.5 million barrels per day.

Sure winner

Whether the energy sector duplicates its performance in 2020 or not, there's only one sure winner. **Enbridge** (TSX:ENB)(NYSE:ENB) is stable as ever, notwithstanding the industry headwinds. The $100.1 billion energy infrastructure company rewarded investors with a 29.99% return in 2021. It currently trades at $49.41 per share and pays a fantastic 6.73% dividend.

Management's investment pitch is plain and simple. Enbridge's business model is utility-like, and therefore, the company has a low-risk commercial and financial profile. Besides the predictable cash flows in all market cycles, the energy stock has raised its dividends for 27 consecutive years.

Furthermore, each of the best-in-class franchises have attractive growth opportunities that should drive future cash flow growth. With its growing renewable energy assets, Enbridge should be among the top prospects of ESG investors.

Forget the market noise

JPMorgan said, "We think OPEC+ will slow committed increases in early 2022, and believe the group is unlikely to increase supply unless oil prices are well underpinned." Investors can take a cue from the bank, although the situation remains uncertain. Invest in Enbridge and forget about the market noise.

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