1 Red-Hot Canadian ETF That Could Beat the TSX by a Wide Margin in 2022

Description

Beating the **TSX Index** doesn't have to be difficult. In a year where financials and energy (two sectors heavily represented by the TSX) could continue to outpace growth, investors should remain disciplined if they're to steer clear of the pitfalls and beat the broader markets.

In this piece, we'll have a closer look at a red-hot Canadian ETF that has a considerable amount of momentum riding behind it. While I'm no fan of chasing past year's returns, I think that names at or around the all-time highs list are worth having a second look at. They're not worth shunning just because of previous price action. Rather, they're worth evaluating to determine if anything fundamental has improved. In the case of the Canadian banks, I'd argue that their share prices haven't appreciated by as much as they could have given the favourable environment that lies ahead.

Higher rates bode well for financials

Indeed, higher interest rates are bad news for growth stocks. But for the big banks? They're a tailwind that could help them gain a leg up on the broader markets after many years of fluctuations. Indeed, 2020 was the year that fintech saw its astronomical rise. With neobanks that many of us thought would challenge the established financial institutions built over the decades.

As it turned out, the hype behind many fintech firms was overblown. While they do hold tremendous potential, it's unwise to think that the deep-pocketed big banks are not willing to embrace technological innovation to remain relevant in an age where there are disruptors swooping in left, right, and centre.

The banks have done a great job of shrugging off the fintech firms thus far. Some banks have innovated far better than others, however. Regardless, I think that higher rates will be a hit to the chin of the fintech firms and a massive tailwind that I don't yet believe is fully factored into the share prices of the top banks.

Betting on the Big Six

As you no doubt have probably already guessed, the red-hot Canadian ETF in this piece is a bank ETF. But it has one caveat: it's an equal-weighted one, providing investors with a solid mix of Big Six exposure across the board from big to small. Enter **BMO Equal Weight Bank Index ETF** (TSX:ZEB).

Why do I prefer equal weights? **National Bank of Canada**, the number-six Canadian bank, has shown its ability to play the role of disruptor. It's a smaller bank that's becoming less regional with time. It also shocked the country when it cut its trading commissions to zero. Indeed, National Bank did well during the pandemic, as did many of its Big Six peers. Fresh off a quarterly flop (it really wasn't that bad), I think NA stock is a name that should not be ignored by bank investors.

With a BMO Equal Weight Banks Index ETF, you're betting on the Big Six with an equal weight across big and small. Indeed, a cap-weighted index may be better for investors who favour the banking behemoths. Still, I'd argue that the depressed valuations and more intriguing growth characteristics of the bottom three of the Big Six are well worth considering.

After blasting off nearly 40% over the past year, I think ZEB is hot but not too hot to handle, especially for those who've yet to punch their ticket to Canada's big banks yet. While you could buy each of the big banks yourself, I think keeping an equal weight is a tough chore that's so much simpler with the ZEB — a top fund that I believe will put the TSX to shame in 2022, especially if rates rise faster than expected.

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