



Canadian Energy Stocks Dip: What Should You Do?

Description

Energy stocks are falling alongside oil prices as there was an unexpected rise in the U.S. crude and fuel inventories. The **iShares S&P/TSX Capped Energy Index ETF** fell 3.58% on January 21. The [ETF](#) has 50% of its holdings in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources**, both of which fell over 3%. As the Toronto stock exchange is an energy-heavy market, the **TSX Composite Index** fell 2.07%.

Why are energy stocks falling?

There are many reasons for the decline in energy stocks, and the rise in the U.S. oil inventory is one of the reasons. According to a CBC [article](#), the Canadian Association of Petroleum Producers expects the country's crude oil investments to rise as much as 22% to \$32.8 billion (6% of global investment) in 2022. This should be positive news, but the concerns of a new Omicron variant BA.2 have got investors worried.

Stock markets worldwide are seeing a sell-off because early research shows this new variant might be immune to the vaccination. CNBC's *Mad Money* host Jim Cramer even pointed to the growing **CBOE Volatility Index**, which measures the implied volatility of **S&P 500** options. The kind of growth seen in this index is similar to March 2020 and October 2018. This hints that another [stock market crash](#) could be in the making.

What does 2022 hold for energy stocks?

The oil and airline stocks took some of the biggest hits in the pandemic-driven crash of March 2020. Airlines took the biggest beating, whereas oil stocks rose like a phoenix. Hence, it is no surprise that **Air Canada** ([TSX:AC](#)) stock fell over 6% in two days while Suncor is down 3%. The new variant has again caused uncertainty around oil demand and made oil producers cautious.

But as I said at the start of the year, variant uncertainty will continue to persist and create waves. But after every variant, there could be bouts of recovery. Oil is an essential commodity, as it is

irreplaceable in many segments, especially jet fuel. You could see some correction in oil prices, but the overall sentiment is bullish.

The next two years are crucial for the energy sector as world economies undergo phased recovery amid waves of COVID-19 variants. **Goldman Sachs** expects oil prices to hit \$100 over the anticipation that oil demand reaches a 'new record high' in the next two years.

What should you do?

2022 could be a tough year for Air Canada. The BA.2 variant could increase the quarantine period as the virus was found in larger quantities in infected people even after five days. This could directly impact travel demand.

If you own AC stock, you may be better off booking a loss than holding on to it and missing other buy-the-dip opportunities. You can [recoup your losses](#) from Air Canada by investing in Suncor Energy. When the pandemic wave eases and air travel increases, Suncor stock might rise again along with oil prices. This looks like a good time to buy Suncor and Canadian Natural Resources, leaders in their respective markets.

Suncor stock

Suncor is Canada's largest integrated oil company, handling everything from extraction to refining to retail. It will benefit when oil prices surge and won't dip much if oil prices fall but production increases. If you are already own Suncor stock, hold on to it at least till 2023. The company aims to increase its [dividend](#) at a compounded annual growth rate (CAGR) of 25% by 2025, and most of this growth will likely come in the coming two years. The company already doubled its dividend in October 2021.

Many analysts might argue that Suncor is using its cash flows for dividends instead of expansion. But let's face the truth, the Canadian government is not supportive of oil and gas development given its carbon emission. The energy sector is switching to renewable and oil could gradually become the secondary fuel in many segments if not all. Hence, Suncor made a wise decision to avoid expansion or that would add to the cost.

Suncor is my stock pick for 2022. It is a stock to add to your watch list and buy the dip.

CATEGORY

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