Energy Stocks: 2 Top ETFs to Buy in February

Description

Energy stocks have been some of the best performers throughout the last year, especially after having a disastrous 2020. But even after the significant gains that energy stocks have made over the last 12 months, there are still several reasons why they could continue to outperform going forward. So if you're looking for some of the top stocks or ETFs to buy in February, the energy industry is one of the best to consider.

First off, inflation is playing a significant role. Higher costs for producers will inevitably push prices higher, especially since demand all over the world is so strong right now. Furthermore, as the world continues to recover from the pandemic, this demand will only continue to grow.

Another major factor that could have a significant impact on energy prices is the political tensions in Europe. There is growing concern about a Russian invasion in Ukraine, which could lead to a significant strain on supply in several ways. Russia is one of the largest exporters of energy in the world, so should something happen, such as sanctions, that could limit the supply of energy coming out of Russia, prices could surge.

It's crucial not to try to speculate on these types of situations. But because inflation is here to stay for a while, and because energy is an important sector to have in your portfolio, you may want to buy these top stocks and ETFs now in February, before they continue to get more expensive.

So if you're underweight energy, here are two of the top ETFs on the stock market to buy now.

An excellent ETF to buy if you want exposure to the top energy stocks in Canada

One of the best ETFs to buy on the stock market today is the **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG). The XEG offers investors exposure to 22 of the top energy producers in the country.

The top 10 holdings include massive companies like **Suncor**, which makes up almost a quarter of the fund. However, it also includes high-growth producers like **Crescent Point**.

And thanks to energy stocks performing so well in recent months, over the last year, the XEG has earned investors a total return of 117%.

So with the energy industry offering so much potential to continue growing and rallying over the coming years, if you're looking for one of the best stocks to buy in February, I'd consider the XEG.

An equal weight ETF offering a higher yield

Another option would be an ETF such as the **BMO Equal Weight Oil & Gas Index ETF** (TSX:ZEO). The ZEO owns a lot of the same stocks as the XEG. However, because the allocations are different, and the ZEO ETF owns fewer total stocks, the performances aren't always the same.

In fact, the ZEO has slightly underperformed the XEG over the last year, earning investors a total return of just 80% vs. XEG's total return of 117%.

However, that's not always the case, and right now, the ZEO offers an annualized distribution yield of 3% vs. XEG's 1.9%. So if you're a dividend investor, the ZEO may be more appealing.

One of the biggest differences is that the ZEO offers exposure to energy transportation and pipeline stocks, which are typically less risky and safer. This is why it may underperform during rallies, but it's a less volatile investment.

So if you're looking to buy a high-quality energy stock in February, before they continue to get more expensive, these two top ETFs look like some of the best investments to make.

CATEGORY

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TICKERS GLOBAL

1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
2. TSX:ZEO (BMO Equal Weight Oil & Gas Index ETF)

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Date
2025/08/21
Date Created
2022/01/31
Author
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