Can Russia-Ukraine Conflict Impact the Energy-Heavy TSX?

Description

Yes. The conflict brewing across the sea could have many far-reaching consequences, most of which we can't predict yet. Oil prices have risen to new highs since 2014, just because of the uncertainty created in the market, but they have steadied; for now, the sanctions imposed on Russia are not targeting energy. But that can change if the conflict evolves further.

While the energy sector is not *the* heaviest sector in the market, it's massive enough to weigh the market down as a whole. Right now, a pricing spike may only boost the already strong momentum of the energy sector. But the same uncertainty that's driving the prices upward may keep investors away from energy stocks.

And *if* an energy dip is on the horizon, there are two companies that should be on your radar.

A pipeline company

You can find a lot of stability (within the energy sector) by buying one of the pipeline stocks. **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is a smart choice from both a dividend and capital appreciation perspective. It has been a slow but steady grower for a while now, and an endorsement of its slow speed would be its post-pandemic recovery, which is still far from over.

Even after growing over 80% since the pandemic-driven crash, the stock is still trading at a 20% discount to its pre-pandemic value. But a benefit of this slow growth is that it has kept the yield reasonably high, and you can lock in 6% right now, possibly more if the stock starts dipping again.

The company is unlikely to slash its payouts, partly to maintain its dividend history and partly because, unlike other energy companies, the revenues of pipeline companies are tied to long-term contracts, which may suffer but not as much.

An oil producer

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is massive, even compared to Pembina. It's an oil and natural gas producer mostly active in Western Canada but also has some international assets under its belt. With a decently balanced focus on natural gas, light and heavy crude oil, and some other relevant products, the company could prove to be a long-term holding at any given time.

However, it might be a great buy *if* the energy sector crashes. The stock has been growing at an incredible pace since the pandemic, and its growth since its market crash valuation has been phenomenal, to say the least (over 450%). Even though it hasn't inflated the value yet, the stock may be considered overpriced and soaring higher than its fundamentals and history suggest.

And if it falls, the overdue correction might push the stock down further than other, relatively stabler stocks like Pembina. And if you buy, then not only will you be able to lock in a much more attractive yield than the current 3.5%, and you may also enjoy a similar capital appreciation.

Foolish takeaway

The conflict is not yet mature enough to cause a major market crash, but it *is* an unfortunate possibility. And this time, the recovery may not look like it did post-pandemic. However, it would still allow you to buy many good, long-term holdings at discounted prices.

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