Why the TSX Outperformed the Nasdaq in the 2022 Market Downturn

Description

The year 2022 started on a surprising note. The TSX Composite Index significantly outperformed Nasdaq. The TSX Composite Index is up 0.72% year to date, whereas the Nasdaq Composite and the S&P 500 Index are down 15.91% and 9.75%, respectively. What is driving the TSX index? The answer is a disruption of global trade due to geopolitical conflicts.

The energy-heavy TSX beats the tech-heavy Nasdaq

The conflict between Western countries (the United States and Europe) and Russia significantly impacted global trade. The United States and Europe have imposed SWIFT sanctions and blocked technology exports to Russia. America has suspended/halted U.S.-listed ETFs that invest in Sweden, Poland, Finland, and Russia, bringing the viability of these ETFs in question. Meanwhile, Russia banned Facebook in the country. These bans have sent banks and tech stocks into a free fall.

The Nasdaq and S&P 500 weigh heavily towards tech and bank stocks. Hence, these markets dipped significantly. The TSX Composite Index is skewed towards energy stocks, as Canada is home to the world's third-largest oil sands reserves. It exports 99% of its oil output to the United States — one of the world's heaviest consumers of gasoline.

In the 2022 market downturn, Canada's three largest integrated oil producers saw significant gains. Stocks of **Canadian Natural Resources**, **Suncor Energy**, and **Cenovus Energy** jumped 37%, 27%, and 30%, respectively, year to date.

The TSX has more upside as oil prices rise

The United States and Europe are considering banning Russian oil imports, said U.S. Secretary of State Antony Blinken in an interview on NBC's *Meet the Press*. This has created fear of the oil supply shortage, given that Russia is the world's largest exporter of oil to global markets.

According to the International Energy Agency (IEA), the United States and Europe imported 7% and

34%, respectively, of their oil needs from Russia in November 2021. The United States might reach out to Canada and Mexico to secure oil supply. But where will Europe go?

The IEA has prepared a 10-point plan to reduce the European Union's reliance on Russian natural gas. It includes finding other suppliers and turning to greener alternatives like bioenergy, nuclear, wind, and solar. This could boost investments in renewable energy. Hence, **Northland Power** (TSX:NPI) stock surged 11.6% since the war began on February 24. The last time it saw such a jump was during the pandemic rebound from March 20. The stock surged 110% between March 2020 and January 2021.

Northland Power has natural gas, offshore, and onshore wind projects in Europe, Asia, and the Americas. It has 14 GW of projects in the pipeline, of which, 49% is in Europe and 38% is in Asia. The developments in the war could accelerate these projects and probably make way for more such projects.

Make the most of the energy crisis

The oil prices are likely to stay elevated for some time. Economists are revising their oil price forecasts upwards. Before the war broke out, they estimated oil to reach US$125/barrel, and oil prices reached this level. The escalating conflicts forced **JPMorgan** to issue a warning that crude oil price could soar to as high as US$185 per barrel this year if uncertainty continues.

This is a good time to invest in the above oil and renewable energy stocks, even though they are trading at a 52-week high. The markets are responding to war, and sanctions are not easy to remove. Even if the Ukraine war ends, Europe and the United States could be skeptical of buying oil and natural gas from Russia.

The global energy supply chain is seeing a significant shift, and Canada is on the positive side of this shift.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:NPI (Northland Power Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Stocks for Beginners

Date
2025/10/02
Date Created
2022/03/07
Author
pujatayal