These 2 ETFs Are Popular Among Canadians

Description

Where is Canada investing in 2022? According to a **National Bank of Canada** report on Canadian ETF flows, Canada is investing in energy. The report stated that Canadian ETFs saw a $14 billion net inflow in the first quarter, of which $10 billion went into equity ETFs.

While equity ETFs bloomed, Canadians withdrew from fixed-income ETFs, as Canada and U.S. central banks increase interest rates. In March, crypto ETFs saw the highest inflow in four months, as **Bitcoin** and **Ethereum** prices surged. Which equity ETFs are popular among Canadians?

Popular ETFs among Canadians in March 2022

The report noted that sector ETFs garnered attention, reporting the highest inflow of $613 million in March. Among the sectors, energy sector ETFs reported a record inflow of $541 million followed by financial sector ETFs with a $132 million inflow. While sector ETFs attracted attention, the broader market S&P/TSX 60 Index ETF remained a popular choice in Canada.

So, what made the above two sectors a popular choice among investors? Let’s see.

Energy ETF

As per the National Bank report, **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) was the most popular energy ETF, logging an inflow of $332 million in March. This is the highest monthly inflow since its inception in 2001 and accounted for 20% of its assets under management (AUM). What made the ETF so appealing?

I have been bullish on oil stocks since 2021 on the back of travel demand recovery from the pandemic. But the Russia-Ukraine war made oil stocks more attractive in 2022.

The oil price touched US$125/barrel in March, as sanctions on Russian oil aggravated the already tight oil supply. In addition, the Organization of the Petroleum Exporting Countries (OPEC) refused to accelerate oil production. This forced U.S. president Joe Biden to release a record $180 million barrels of oil from its emergency reserve to ease oil prices. As oil became the hottest commodity, Canada came into the limelight because of its fourth-largest oil sands reserves. All oil and pipeline stocks trading on the TSX surged double digits year to date. As one of the oldest sector ETFs, XEG became a key beneficiary and has surged 43.7% year to date.

For $15-$16 per unit and a $0.61% management expense ratio (MER), XEG ETF gives exposure to 24 energy stocks. The ETF has almost 60% of its holdings in Canada's three largest oil companies: **Canadian Natural Resources**, **Suncor Energy**, and **Cenovus Energy**. Investors jumped into the rally to make the most of the energy crisis.

Generally, I do not recommend buying cyclical stocks at their highs, but energy prices are likely to remain high throughout the year. Hence, there is still time to jump into the rally and get a mid-teen growth from the XEG ETF.

Financial ETF

The financial sector caught investors' attention, as the Bank of Canada and the U.S. Fed announced a 50-basis-point (bps) and 25-bps interest rate hike, respectively. They also unveiled plans to increase rates throughout the year. However, investors started pricing the rate hike in December 2021. Investors sold tech stocks and fixed-income securities and bought stocks of Big Six Canadian banks.

As per the National Bank's March report, the most popular financial sector ETF was **BMO Equal Weight Banks Index ETF** (TSX:ZEB), with an inflow of $172 million (9% of its AUM). This ETF invests equally in the Big Six banks, removing fund manager bias. It has one the lowest MER of 0.28% and an annual distribution yield of 3.67%, which makes it attractive. This explains its popularity among ETF investors.

However, this ETF has dipped 7% in the last 30 days, as the latest budget imposed a heavy tax burden on financial institutions. The budget introduced a one-time 15% tax on banks and insurers' taxable income above $1 billion in the 2021 tax year. It also plans to increase financial institutions' corporate income tax rate from 15% to 16.5% on taxable income above $100 million.

In the wake of these policy changes, I expect more downside in bank stocks, but they are still good long-term bets.

CATEGORY

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Date
2025/07/23
Date Created
2022/04/19
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