2 TSX Commodity ETFs to Own as Inflation Rises

Description

Canadian resource stocks continue to generate interest as the world reels from surging inflation. The energy sector is amazingly ahead 42.54% year to date, while materials outperform with nearly 13%. Because of the ongoing conflict between Russia and Ukraine, the disruption global supply chains could persist until 2024.

The World Bank presented the assessment through its Commodity Markets Outlook report. Meanwhile, the TSX offer abundant choices of commodity stocks for inflation protection. However, if picking individual companies is cumbersome or time-consuming, your best bets are commodity exchange-traded funds (ETFs).

Investors can gain exposure to the top two performing sectors through **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) and **iShares S&P/TSX Global Gold Index** (TSX:XGD). Thus far in 2022, both ETFs outperform the broader market. The former is ahead 43.27%, while the latter is up 11.56%.

Heavyweight sector

BlackRock is the fund manager of XEG, an ETF that replicates the performance of the S&P/TSX Capped Energy Index. The fund’s target exposures are Canadian oil companies (major and minor industry players). Despite its high-risk rating, the ETF displays resiliency in this commodity-oriented market.

As of this writing, there are 24 energy stocks in the basket. **Canadian Natural Resources** (24.61%), **Suncor Energy** (24.32%), and **Cenovus Energy** (11.06%) are the top three holdings. While BlackRock rebalances the portfolio every quarter, the current crop of energy stocks are winning investments in the present.

Also, the current net value of the assets is $2.18 billion. If you invest today, XEG trades at $15.38 per share and pays a decent 2.06%. Like most dividend payers, the fund's payout frequency is quarterly. According to BlackRock, the XEG seeks long-term capital growth first and foremost.

Global gold and metals producers

Some market analysts use XGD to express a view of the global materials or mining sector. BlackRock also manages the portfolio that enable investors to gain exposure to producers of gold and related metals in Canada (64.86%), U.S. (25.58%), and South Africa (8.67%).

Newmont (21.84%), **Barrick Gold** (15.11%), and **Franco Nevada** (11.01%) have the largest percentage weights in the fund. BlackRock rebalances the portfolio quarterly and pays dividend semi-annually. The share price today is $20.37, while the dividend offer is 1.3%.

Performance-wise, XGD's total return in 3.01 years is a respectable 78.65% (21.3% CAGR). The fund's investment objective is the same as XEG, and that is to provide long-term capital growth. However, it replicates the performance of the S&P/TSX Global Gold Index.

Best asset class

Many economists said supply chains would improve in 2022 or the post-COVID era. They also thought that precious metals like gold will struggle. Unfortunately, they did not foresee a war coming. Supply chain disruptions are more intense because of the war in Eastern Europe. Hence, it's safe to assume that commodities should be the best asset class this year.

Investing in commodity ETFs like XEG and XED makes sense in the current environment. Would-be investors can do away with individual selection and gain instant exposure to oil or precious metals producers. You also earn two ways from capital growth and dividends. More importantly, both ETFs are stable to weather the macro headwinds.

CATEGORY

1. Investing

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