1 Energy ETF With an Unbelievable 55% Gain

Description

Energy and materials are the TSX's top two performing sectors thus far in 2022. However, the former leads the latter by a mile — +54.67% versus +7.90%. While many consider gold and other precious metals as safety nets, it doesn't reflect on the performance of mining stocks.

Meanwhile, energy stocks are unstoppable in that the favourable pricing environment has propelled many of the sector's constituents. The same is true with exchange-traded funds (ETFs). BlackRock manages the **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) and **iShares S&P/TSX Global Gold Index** (TSX:XGD) but any investor would be inclined to pick the energy ETF today.

Long-term capital growth

XGD isn't a mediocre choice, given the fund's total return in 3.01 years is 70.2% (19.32% CAGR)**.** The basket contains 48 global securities of producers of gold and related products. While Canadian stocks (65.46%) dominate the portfolio, it also holds U.S. (25.38%) and South African (8.25%) stocks.

Newmont, **Barrick Gold**, and **Franco Nevada** are the top three holdings. BlackRock, through XGD, seeks to provide long-term capital growth by replicating the performance of the S&P/TSX Global Gold Index. The rebalancing of stocks in the fund is every quarter. Last, XGD pays a modest 1.42% dividend on a semi-annual basis.

Unbelievable gain

While XGD displays resiliency with its 3.45% year-to-date gain, XEG is up 55.81%. Also, the outperformance belies BlackRock's high-risk rating for the ETF. At $16.40 per share, the trailing one-year price return is 107.19%. Moreover, the total return in 3.01 years is 84.29% (22.51% CAGR).

XEG is purely Canadian with 24 stocks representing players in oil & gas exploration & production (54.58%), integrated oil & gas (44.61%), and oil & gas equipment & services (0.61%) industries. The top three holdings are **Suncor Energy** (26.11%), **Canadian Natural Resources** (22.39%), and **Cenovus Energy**

(12.81%).

Other holdings include the TSX's high flyers, such as **NuVista Energy**, **Cenovus Energy**, **Birchcliff Energy**, and **Vermilion Energy.** XEG also **s**eeks long-term capital growth like XGD, except that it replicates the performance of the S&P/TSX Capped Energy Index. But unlike the XGD, the dividend payout is quarterly. The current yield is 1.84%.

Interestingly, XEG doesn't own shares of pipeline operators like **Enbridge**, **TC Energy**, and **Pembina Pipeline**. The trio are among the high-yield stocks in the energy sector. Perhaps either one can be your core holding with the ETF as backup.

Inflation protection

XEG and XGD are solid prospects if you desire commodity ETFs. You spread the risks with several oil producers and precious metals miners in one basket. Furthermore, BlackRock's investment objective and strategy are straightforward and transparent.

Performance-wise, both ETFs outperform the broader market year to date. BlackRock expects inflation to stay higher for longer and is ready to navigate the new regime.

The fund manager recommends the multi-asset approach, if not careful selection of equity allocations, particularly an asset class that offers inflation protection. At the moment, XEG is the better commodity ETF if you seek an inflation hedge and long-term capital growth. Moreover, XEG's historical performance is proof of resiliency.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
2. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

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