Canadian Energy Sector and Geopolitical Realities Investors Need to Understand

Description

The energy sector is one of the few on the TSX that is perhaps most heavily influenced by international geopolitical factors. The sector has always been a heavyweight, thanks to the energy reserves in the country, and has gotten significantly “heavier” in the past couple of years.

The **S&P/TSX Capped Energy Index** has risen over 500% from the fall. And even though a lot of this unprecedented growth of an entire sector can be attributed to the hard fall it endured during the pandemic, it’s still quite impressive.

The index is roughly about 18.3% down from its 2014 peak, but even though the growth momentum is going strong, the probability of it reaching that peak again is relatively low.

The global energy sector

The energy sector around the globe suffered a massive blow during the pandemic. Then, as the pandemic and its effects started to recede, the Canadian energy sector recovered and started growing in a powerful place. It *did* reach a saturation point after a while, but the fact that OPEC kept missing the mark and underproduced as per demand, the oil prices started to rise.

The supply crunch *would* have alleviated over time, but then Russia invaded Ukraine. And even though it’s still selling oil, Europe (one of its largest markets) is looking for other options. Russia has already started considering cutting its oil output by 30%, which might push the price of crude even higher than the recent US$120 per barrel peak it reached.

If you are interested in buying into energy, you have to understand that while there is still a decent amount of bullish growth remaining, few (if any) energy giants are attractive buys at their current inflated prices. If you can pull out before the eventual correction, you should consider buying. But if you can’t, you might end up holding some overpriced assets for the next few years.

However, the correction will also give you an option to buy some energy stocks that you *can* hold for a very long time, and one of them is **TC Energy** (TSX:TRP)(NYSE:TRP).

A natural gas-focused pipeline giant

While no company in Canada comes even close to **Enbridge** when it comes to transporting oil and its oil pipeline network, TC Energy is a serious contender in the natural gas business. The company supplies one-fourth of the natural gas consumed in North America and is a critical player in the region.

And it's the natural gas focus that makes TC Energy such a potent long-term buy. As we move closer to 2050, the world will (hopefully) start relying less and less on fossil fuels. Within this small set, natural gas will most likely be the last to go, thanks to its ability to burn relatively cleaner compared to others.

The stock is also a bit unusual, as it's one of the few companies that *haven't* reached their pre-pandemic price point yet. And if the recovery-fueled bullish momentum didn't carry the stock up too much, the correction might not impact it as harshly as well. But even a small decline will pump up the yield, allowing you to lock in a much better number than the current 4.9%.

Foolish takeaway

While it's not easy to predict, energy stocks in Canada (and the sector as a whole) can start going in the opposite direction (or expedite the pace of the correction that has already started) if the price per barrel of crude falls to double digits.

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