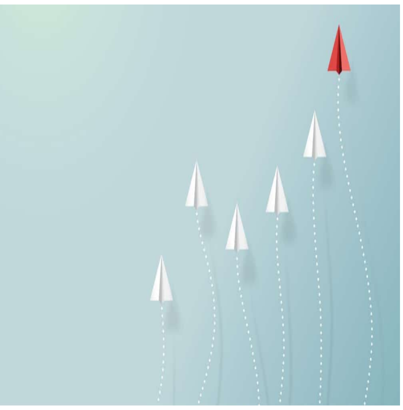

Energy Stocks Are Hot, But 2 ETFs Are Hotter!

Description

May 2022 has been a tumultuous month for stock markets in North America. Fortunately for Canadian investors, the **TSX** regained strength heading into June with a remarkable seven-day win streak. The Index almost touched 21,000 on May 30, 2022, as nearly all primary sectors, except one, posted gains.

However, investors continue to search for safe assets because uncertainties persist. The global economic slowdown and surging inflation could still unsettle the market. Energy stocks are faring better, but two energy exchange-traded funds (ETFs) are proving equally resilient in 2022.

BMO Equal Weight Oil & Gas Index ETF (TSX:ZEO) and **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) offers top-performing energy stocks in one basket. Both ETFs also outperform the broader the market year to date. ZEO is up 55.2%, while XEG is flying high with +70.2%.

Balanced representation

BMO Global Asset Management's ZEO replicates the performance of the Solactive Equal Weight Canada Oil & Gas Index. Your exposure is to Canadian oil and gas stocks. Instead of market capitalization, the fund manager maintains equal weights to lessen specific security risk. All equities in the fund are subject to minimum market capitalization and liquidity screens.

ZEO's geographic allocation is 100% Canadian. Currently, the basket consists of 10 energy stocks. **Enbridge**, **TC Energy**, **Pembina Pipeline**, and **Keyera** represent the oil and gas storage and transportation sector. **Tourmaline Oil**, **Cenovus**, **Suncor**, **Imperial Oil**, **Arc Resources**, **Canadian Natural Resources** represent either the integrated oil and gas or oil and gas exploration and production sectors.

If you invest today, ZEO trades at $71.54 per share. The ETF pays a decent 2.67% dividend (annualized), while the payout frequency is quarterly. Interestingly, the risk rating is high, yet the ETF outperforms like the red-hot energy stock.

Long-term capital growth

Like ZEO, the target exposure of XEG are companies in Canada's energy sector. The objective of BlackRock, the fund manager, is to provide long-term capital growth by replicating the S&P/TSX Capped Energy Index's performance. The difference with XEG is that the oil and gas storage and transportation sector has zero representation.

The percentage weight of oil and gas exploration and production stocks is 54.95%, while integrated oil and gas companies comprise 44.39% of the total 24 holdings. **Crescent Point Energy**, **MEG Energy**, **Whitecap Resources**, and **Enerplus** take the place of the pipeline operators in ZEO.

ZEO also has shares of top performers like **Vermilion**, **Baytex**, **NuVista**, **Birchcliff**, and **Freehold Royalties**. At $17.84 per share, the trailing one-year price return is 120.87%. In 3.01 years, XEG's total return is 111.33% (28.27% CAGR). For the benefit of income investors, the dividend offer of this ETF is a modest 1.74%. BlackRock also rebalances the portfolio every quarter.

Growing ETF market

The TSX's ETF market (1,012 funds) is growing, and at the close of Q1 2022, the asset size was $352 billion. The main categories are Canadian, U.S., international equity, fixed-income, and all-in-one portfolios. ETFs for ESG and crypto investors are likewise available.

Risk-averse investors prefer diversified ETFs (stocks or assets from various sectors) to reduce market risks. However, energy ETFs like ZEO and XEG are the logical picks, as they mirror the red-hot energy sector. You can earn two ways: from price appreciation and dividends.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
2. TSX:ZEO (BMO Equal Weight Oil & Gas Index ETF)

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