How Dirt-Cheap Value Stocks Are Making Canadians Rich

Description

Dirt-cheap value stocks are making Canadians rich in 2022. And we have the data to prove it! Investing.com maintains an active list of the most traded TSX stocks, and value stocks are topping the charts. Not only are value stocks (banks, energy, rail, utilities, etc.) among the most traded on the TSX, they're also among the best performing. 2022 has seen a massive collapse in the valuations of tech stocks, which has benefited Canadian value stocks immensely. In this article, I will explore two key reasons why value stocks are making Canadians rich in 2022.

Oil prices are rallying

One reason why Canadian value stocks are crushing it this year is because oil prices are rising. This year, WTI crude went as high as $120, and it's still historically high (about $115) today. Naturally, earnings at Canadian energy companies are rising. In its most recent quarter, **Suncor Energy** (TSX:SU)(NYSE:SU) beat analyst expectations on both the top and bottom lines. The company posted significant growth in revenue, earnings, and cash flows. It also reduced its debt by over $700 million.

It was a great showing. Yet SU stock is still outrageously cheap, trading at just 1.7 times book value and 5.7 times operating cash flow. Given the strong energy prices we're seeing, it should come as no surprise that SU is making investors rich. Value and growth together is a winning combination.

Interest rates rising

Another factor taking Canadian value stocks higher this year is rising interest rates. Both the Federal Reserve and the Bank of Canada are raising rates this year, and that's helping banks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

In its most recent quarter, TD Bank beat on revenue and earnings, delivering positive earnings growth when most expected earnings to decline. That was in no small part due to higher interest rates. The very same interest rate hikes that are taking a bite out of tech stocks are taking TD's net interest income higher. As a result, the company's stock is outperforming the S&P 500 this year.

Will a recession end the party?

As we've seen, oil prices and interest rate hikes are taking Canadian value stocks higher this year. The question is, will a possible recession end the party? Value sectors like energy and banking are very much tied to the state of the economy. While tech stocks can sometimes do well even when the economy is collapsing (look at **Shopify** during the 2020 recession), it's not as likely to happen to banks and energy companies.

When the economy contracts, banks make fewer loans and people drive less. This could eventually end the party in traditional value stocks. Indeed, U.S. banks are already feeling the squeeze — in the most recent quarter, every single one experienced negative earnings growth. Canadian banks are doing better, but you never know when the economic contagion from the U.S. will spread here.

Nevertheless, value stocks as a whole are in a good place right now. Current conditions benefit banks and energy stocks, and utility stocks should do pretty well if the expected recession materializes. So, Canadian value investors may well continue to get rich.

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