Oil vs. Food: Where Should You Park Your Cash?

Description

The world today is more connected than it has ever been in the history of humanity. Supply chains stretch over the farthest possible distances, and the components of a simple device may come from different corners of the world. This connectivity has both pros and cons. The more links there are to a chain, the more potential weak points or failure points.

From a global pandemic to a major regional conflict, every extreme event has far-reaching consequences for the global supply chains. An example would be the Russia-Ukraine war, the consequences of which are reaching way beyond the local boundaries. It's also affecting commodities like oil and grain.

As a Canadian investor, you are more likely to see the war's impact on the global energy/oil market than food, but it's still a good idea to take the international geopolitical realities into account when determining whether you should park your cash in oil or food.

A food-related investment

Food is a very large umbrella, covering numerous businesses, including grocery chains, food processing companies, restaurants, etc. You can go all the way back to the food supply chain (at least from an agricultural perspective) and invest in a company like **Nutrien** (TSX:NTR)(NYSE:NTR).

This Saskatoon-based company is one of the largest fertilizer companies in the world. And it tops the charts in a lot of areas, like Potash. Nutrien is the largest potash producer in the world and owns six mines in Saskatchewan.

It's also one of the largest agricultural retailers, especially in North America and Australia and has over 2,000 locations around the globe. It also has an extensive product range at over 2,000.

The stock went through a powerful growth phase post-pandemic and is currently going through a correction. You should try and buy once the correction phase reaches its zenith and lock in a much better yield than the current 2.1%.

An oil-focused investment

Suncor (TSX:SU)(NYSE:SU) is a fully integrated energy giant that leans heavily on the oil sands. This is both a strength and a curse. When there is enough cheaper shale oil, oil sands as an extraction source doesn't exactly shine. However, Suncor's strength is in its longevity, assuming there is enough demand beyond 2050.

Suncor was cherished for its dividends until it slashed its payouts at the height of the pandemic. It was a financially smart move, but it alienated a lot of investors. Still, the company didn't stay at the lower payout level more than was necessary and has already brought its payouts quite close to the levels they were slashed at.

The stock is also quite promising thanks to its current growth potential, triggered by the sector-wide bullish momentum. The giant has grown over 130% in the last 10 months and is offering a modestly strong 3.6% yield.

Foolish takeaway

The return on investment of the two different asset classes/commodity classes will be different both in scale and timing. Oil is currently paying off, but the rally is unlikely to last long.

When the price per barrel comes down from a three-digit price tag, many Canadian oil companies will be right there to meet it at the ground level. However, food companies like Nutrien can really outshine the broad market in the coming decades.

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