Time to Shift? 1 Energy ETF Has Returned 75% Year to Date

Description

Some passive investors prefer exchange-traded funds (ETFs) over individual stocks to sidestep the cumbersome selection process. However, in the current complex environment, not all ETFs are profitable investments. Oil stocks are collectively powering the TSX because of rising crude prices.

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In the same light, one energy ETF has outperformed the broader market thus far in 2022. **RBC's iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) has gained 75.86%, slightly ahead of the energy sector's +74.13%. BlackRock Asset Management Canada Limited manages this commodity ETF.

Global supply crunch

Oil maintained its gains after U.S. government data showed crude inventories in the largest storage hub and gasoline stockpiles dropped, offering little relief to concerns. A global supply crunch seems inevitable as the Organization of Petroleum Exporting Countries (OPEC) and its allies can't guarantee sufficient oil supply while demand fully recovers from COVID-19.

Only two OPEC members, Saudi Arabia and the UAE, have significant volumes of idle production capacity. Unfortunately, their outputs won't be enough to offset the supply gap created by sanctions on Russia. UAE energy minister Suhail Al-Mazrouei said, "We're lagging by almost 2.6 million barrels a day, and that's a lot."

Mazrouei added, "The situation is not very encouraging when it comes to the quantities that we can bring." On June 8, 2022, West Texas Intermediate (WTI) and Brent prices climbed to US$122.11 and US$123.58 per barrel, respectively. Apart from Russia-Ukraine war and recovering economies, COVID's resurgence in China contributes to the extreme volatility in the oil market.

Oil price projections

Meanwhile, strategists at **Goldman Sachs** have revised their price projections. They forecast Brent crude oil to average US$135 per barrel during the second half of 2022 until the first half of 2023. Mark Zandi, an economist at Moody's Analytics, said that if the price reaches the US$150 level, the world's largest economy could go into recession.

The U.S. Energy Information Administration's (EIA) average price forecast for Brent crude oil in Q3 2022 is US$111.28 per barrel and predicts a slide to US$104.97 per barrel in the fourth quarter. While the EIA expects OPEC+ and the U.S. to increase production modestly, Russia's production will experience a steep decline (1.1 million barrels per day) between May 2022 and year-end 2023.

100% Canadian ETF

XEG's targeted exposure are to companies in Canada's energy sector. The ETF seeks long-term capital growth by replicating the S&P/TSX Capped Energy Index's performance. Oil & gas and exploration & production companies (56.03%) and integrated oil & gas companies (43.09%) are duly represented in the portfolio. Pipeline operators have zero representation.

Nearly all of the 24 Canadian oil stocks in the basket are in positive territory. **Suncor Energy** (25.04%), **Canadian Natural Resources** (21.65%), and **Cenovus Energy** (12.90%). At $18.51 per share, the trailing one-year price return is 110.15%, while the dividend yield is a modest 1.63%.

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While some of the individual stocks pay considerably higher dividends, XEG can boost overall returns through price appreciation. Had you invested $10,000 in this ETF on year-end 2021, your money would be worth $17,578.35 today.

Standout basket of stocks

The advantage of investing in an ETF is that you have a professional fund manager for the basket of assets. Since commodity stocks are the hottest picks today, XEG should also be the standout basket of energy stocks.

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