Oil Drops Below $100: Should You Buy?

Description

The price of crude oil is dropping today. West Texas Intermediate (WTI) crude slipped below $100 and is currently trading at $99.4. The price surged to $123 when Russia invaded Ukraine in late February.

The collapse in energy prices has come as a surprise for many. It has far-reaching implications for the global economy and the rest of the stock market. Here's a closer look at what this means and whether investors should buy the dip.

Why is the oil price falling?

The supply of energy remains deeply constrained. Oil producers across the world have struggled to ramp up production this year. However, demand has fallen off a cliff.

Rising interest rates, layoffs and the cost of living have compelled consumers to cut back on spending. There are concerns that the world faces a recession. In fact, some estimates suggest we're already in a recession now.

Lower demand is bad for oil prices. Crude fell in 2008 after the Global Financial Crisis. We could be repeating history now.

What comes next?

It's incredibly difficult to predict what comes next. Expert opinion is split. Some say the correction is temporary and the supply of oil is still far below demand. Others say demand destruction is likely to be so severe that oil prices remain suppressed for a while.

The price hinges on the severity of the upcoming recession. If the downturn is as bad as 2008, oil could go lower. If the recession is milder, crude prices may stabilize here. Investors need to make a decision between one of these forecasts.

Bet on oil stocks

If you believe the supply-demand imbalance will be persistent for several years, this dip could be an opportunity. Adding robust oil stocks, like **Suncor Energy** (TSX:SU)(NYSE:SU), could be perfect contrarian plays.

Over the past month, Suncor has lost 20% of its value and is now firmly in bear market territory. The stock trades at just 10 times earnings per share. If oil prices remain elevated or surge higher, this stock could unlock tremendous value for patient shareholders.

Warren Buffett is certainly betting on a persistent oil boom. In recent months, he has bought a significant stake in **Occidental Petroleum**. However, Buffett also made the mistake of betting on oil companies in the 2008 financial crisis and lost money on this bet, so tread carefully.

Bet on growth stocks

It seems counter-intuitive, but cheap oil is good for growth stocks. If the price of fuel remains low, inflation will subside. That means central banks can slow down their interest rate hikes and quantitative tightening cycles.

Beaten-down growth stocks, like **Constellation Software** could rebound sharply. Investors who believe a recession is certain should bet on long-term growth stocks at these levels.

Bottom line

Oil prices are falling because demand is quickly evaporating. Investors can buy the dip on oil stocks if they think this is temporary. But if the correction is persistent, tech and growth stocks would be a better bet. Good luck.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Energy Stocks
2. Investing

Date
2025/08/18
Date Created
2022/07/05
Author
vraisinghani