2 Growth ETFs That Could Double in 2022

Description

Investors who are stressed out by the need to rebalance their portfolios due to the stock market's erratic behaviour can turn to exchange-traded funds (ETFs). The asset class simplifies the selection process, enables instant diversification, and offers capital growth solutions to would-be investors.

The Toronto Stock Exchange has around 900 ETFs today. Industry titans, **BMO** Global Asset Management (BGAM) and iShares, in particular, have the best in ETF offerings available to Canadians. Since energy, not technology, is the top-performing sector today, energy or oil & gas-heavy ETFs are the top choices of growth investors.

BMO Equal Weight Oil & Gas Index ETF (TSX:ZEO) and **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) outperforms the broader market (-10.37%) by a mile. The former is up 30.32% year to date, while the later enjoys a 34.71% gain. If oil prices stay elevated and supply conditions remain tight, both ETFs could even double in 2022.

Lower security specific risk

BGAM manages ZEO, an ETF designed to replicate the performance of the Solactive Equal Weight Canada Oil & Gas Index. The exposure or investments are in Canadian oil and gas stocks. BGAM doesn't look at market capitalizations, but maintains equal weights to lessen security specific risk.

The stock holdings in the fund are small (10 companies), although they are the top names in the storage & transportation and integrated oil & gas or oil & gas exploration and production sectors. **Enbridge**, **Pembina Pipeline**, **Canadian Natural Resources**, **Suncor Energy**, and **Imperial Oil** are among the prominent names.

Performance wise, ZEO is relatively stable despite the medium- to high-risk rating. The total return in 3.01 years is a decent 61.05% (17.15% CAGR). In 2021, the ETF rewarded investors with a 64% overall return, beating the energy sector's 41.8% return for the year. If you invest today, ZEO trades at $59.51 per share and pays a 3.47% dividend.

All stocks in the fund are subject to minimum market capitalization and liquidity screens. Thus, BGAM will rebalance the portfolio, if necessary, due to the required screening tests.

High-growth holdings

BlackRock's XEG also focuses on Canada's energy sector, but the holdings (28 stocks) are nearly triple compared to ZEO. At $14.07 per share, the trailing one-year price return is 63.99%, while the dividend yield is 3.01%. XEG seeks to deliver long-term capital growth by replicating the S&P/TSX Capped Energy Index's performance, net of expenses.

Interestingly, the representation of storage & transportation companies in the energy sector is zero. Canadian Natural Resources (24.66%), Suncor Energy (24.59%), and **Cenovus Energy** (11.74%) have the largest percentage weights. Notably, most of XEG's holdings are the top price performers thus far in 2022.

The total return of this ETF in 3.01 years is 73.2% (20.01% CAGR). Like ZEO, XEG outperformed the energy sector in 2021. Its total gain for the year was 83%. A repeat of the enormous returns this year is possible given the current situation in the oil industry.

Outperformers

ZEO and XEG outperforms typical growth ETFs whose exposures are to growth-oriented technology firms. The pair of energy-heavy ETFs could even deliver better performances than their stellar showings last year.

CATEGORY

1. Dividend 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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