



Crude Oil at \$100: Is it Safe to Invest in Energy Stocks?

Description

Crude oil had a rough start to the month of July, as the world's most traded commodity saw its prices go down to multi-month lows. Oil is a commodity that remains volatile due to the geopolitical tensions surrounding one of the largest oil-producing countries. There are several different price target ranges coming in by experts.

From the best-case scenario looking at price targets of around US\$65 per barrel by the end of the year to a worst-case scenario with a price target of US\$380 per barrel, the energy sector is all over the place. Energy stocks on the TSX have been volatile in recent weeks due to the uncertainty in global oil supplies, with many of them declining by up to 30% within a few weeks.

Today, we will discuss what could be next for the energy sector and whether it would be a wise decision to invest in [Canadian energy stocks](#).

What might happen next for the energy sector?

The red-hot inflation and rapid interest rate hikes to control it have substantially increased recession risks. Investors are worried about their investment returns, fleeing risk and allocating their money to safer assets. Unfortunately, the possibility of a recession could create a significant dent in crude oil demand.

Despite recessionary fears, investors might have more reason to be bullish about energy stocks. Crude oil demand has diminished in the past only during the worst recessionary periods. The possibility of a market crash significant enough to diminish crude oil demand seems unlikely to happen.

The issue with the energy sector has more to do with the uncertainty surrounding supply to meet demand. Even if the demand for crude oil declines, the supply constraints could lead to support for higher crude oil prices.

Russia's role in the global energy industry as one of the largest oil and gas producers will be vital in determining what will happen in the next few weeks and months. The U.S. and Europe plan on placing

caps on Russia's crude oil, and the country might reduce its production in retaliation. The move could place further constraints on global crude oil supplies.

A country responsible for producing 10% of the global crude oil supply can substantially impact global energy markets if it decides to take retaliatory measures against further sanctions placed against it.

What is happening with Canadian energy stocks?

The Canadian stock market has been weak for most of this year, and until the last few weeks, Canadian energy stocks had kept the broader market propped up. The recent-most interest rate hike by the U.S. Fed led to a pullback in the energy sector, sending the rest of the market down. Despite the pullback, TSX energy stocks remain some of the few better performers in the Canadian stock market.

The **S&P/TSX Composite Index** is down by 11.39% at writing on a year-to-date basis. The **S&P/TSX Capped Energy Index** is up by 26.43% in the same period. Canadian energy stocks still appear well positioned to deliver another round of excellent quarterly earnings reports. The first quarter of fiscal 2022 saw crude oil average around US\$95 per barrel, during which energy stocks put up stellar figures.

The second quarter of fiscal 2022 saw crude oil average around US\$110 per barrel. The higher energy prices in the last few months could substantially boost quarter-over-quarter energy sector financials.

Foolish takeaway

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)), one of Canada's largest oil producers, looks poised to deliver on that front. The \$59.64 billion market capitalization integrated energy company is based in Calgary. The company specializes in producing synthetic crude oil through its oil sands operations.

Suncor Energy stock trades for \$41.52 per share at writing, boasting a 4.53% dividend yield. Despite its recent dip of over 22%, Suncor Energy stock is up by 25.25% year to date. The company generated \$7.7 billion in free cash flows in the last 12 months. Its Q2 2022 quarterly earnings report will be stronger, with more substantial cash flows.

It could be a good time to invest in Canadian energy stocks today, and Suncor Energy stock could be a good pick for this purpose.

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Author

adamothonman

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