What Bear Market? This ETF Is Soaring in 2022!

Description

Stocks are in a bear market in 2022. The S&P 500 is down 20% for the year, while Canadian stocks are down 10%. Technically, the TSX is only in a correction, not a full on bear market, but many Canadians invest in U.S. stocks and are seeing bear market-like results in their portfolios.

It's a tough time for most investors. But a select few are beating the odds. Some asset classes are defying the general market trend this year and delivering positive capital gains.

Take oil for example. Oil prices are up this year, and oil stocks are rising right alongside them. Energy stocks ended the first half up 30%. Some think they might have further to rise from here. In this article, I will explore one oil and gas ETF that is defying the market trend and delivering positive capital gains — with dividends to boot!

BMO's oil and gas ETF

B**MO S&P/TSX Equal Weight Oil And Gas ETF** (TSX:ZEO) is a Canadian oil and gas ETF offered by **Bank of Montreal.** It holds most of Canada's large-cap energy stocks in equal weighting. It has a 3.6% distribution yield and has delivered a 15.5% capital gain this year.

In ZEO's portfolio, you will find

- Exploration and production companies (E&Ps);
- Pipelines;
- Natural gas utilities;
- And more.

Many of the names in the portfolio, like **Suncor** and **Cenovus Energy**, are well known. What makes the fund unique is its weighting scheme. Equal weighting is a unique system where all stocks in the portfolio are held in equal amounts. This reduces concentration risk — the risk that one overly large holding in a portfolio underperforms. So, ZEO is arguably less risky than a market cap weighted fund with the same holdings.

Why it's rising

ZEO is rising this year for one simple reason:

Oil prices are going up.

You may have noticed that gasoline has been getting more expensive this year. That's bad for consumers but good for energy companies. When oil goes up, gas goes up. Oil marketers and companies that operate gas stations make more money. This phenomenon is leading to a surge in earnings for large energy companies this year. ZEO, for its part, is reaping the whirlwind.

Will it continue rising?

It's one thing to note that ZEO rose in the past, but quite another thing to predict that it will continue rising in the future. Oil prices are up for the year but down over the last month. If they keep going down, then perhaps ZEO will deliver poor returns for those who buy now.

What's likely to happen?

Nobody can ever say for certain, but my feeling is that oil prices will remain relatively high for most of this year. The war in Ukraine is still ongoing. Supply chains are still disrupted. The U.S. strategic petroleum reserve release — the main factor keeping prices low — is only a temporary measure. I can't say for certain that oil prices will go back to the all-time highs for the year. But they will likely stay high enough for oil stocks to report strong earnings that exceed analyst expectations.

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