2 Inflation-Fighting Canadian Energy Sector ETFs to Buy

Description

Inflation continues to trend high in Canada and the United States. Down south, consumer price index (CPI) readings for August 2022 landed at an 8.3% year-over-year increase, which is higher than consensus market estimates of 8.1%. In particular, core inflation still trends high, buoyed by energy prices.

With the energy crisis in Europe ongoing due to Russia shutting off the vital Nord Stream pipeline, all eyes are now on Canadian energy stocks, especially those involved in natural gas production, processing, and distribution.

The TSX energy sector is one of the largest in Canada's stock market, and there's no shortage of great stock picks there. While you figure out which ones are great buys (and my fellow writers have some fantastic picks), my suggestion is getting started with an energy sector exchange-traded fund, or ETF.

The iShares option

iShares S&P/TSX Capped Energy Index ETF (TSX:XEG) holds 22 Canadian energy sector companies. The ETF's top five holdings include **Canadian Natural Resources**, **Suncor Energy**, **Cenovus Energy**, **Tourmaline Oil**, and **Imperial Oil**, with the first two stocks accounting for roughly 25% of the ETF each. If you're a fan of Canadian Natural Resources or Suncor Energy, this is the ETF for you.

XEG is a capped index. This means that it puts restrictions on the weights of each stock at a maximum of 25%. Otherwise, a single stock can grow so big as to dominate the ETF, which reduces diversification. XEG costs an expense ratio of 0.61% to hold, or around $61 annually in fees for a $10,000 investment.

The BMO option

BMO Equal Weight Oil & Gas Index ETF (TSX:ZEO) holds just 10 TSX energy sector stocks, making it a more concentrated bet than XEG. However, the ETF opts for a equal-weighting allocation, giving each stock around 10%. The top holdings include Canadian Natural Resources, Suncor Energy, Cenovus Energy, Tourmaline Oil, Imperial Oil, **Arc Resources**, **TC Energy**, **Pembina Pipeline**, **Enbridge**, and **Keyera**.

ZEO is much more balanced in terms of holdings compared to XEG. Because each company is equally weighted, investors can better capture the TSX energy sector’s performance as opposed to just tracking its largest holdings. Like XEG, ZEO costs an expense ratio of 0.61% to hold.

The Foolish takeaway

Investors interested in “tilting” their stock portfolio to the TSX energy sector could consider an allocation to either XEG or ZEO. Both ETFs offer exposure to some of Canada’s largest players in the energy sector, from upstream, midstream, and downstream industries. Most of these energy stocks are long-standing dividend payers, too, so income investors looking for good yields can fit XEG or ZEO into their portfolios. That being said, investors opting for this approach should keep an eye on commodity prices, as fluctuations there can affect the energy sector.

CATEGORY

1. Energy 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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