



## 2 Commodity Stocks to Further Diversify Your TFSA

### Description

Commodity stocks had a magnificent run last year, as the S&P 500 sunk into a bear market. With the strong recent Canadian jobs number pointing to more rate hikes over the coming months, [TFSA](#) investors may wish to seek shelter in the top-performing commodity plays. Led by energy plays, the TSX Index seems to be in a pretty good spot relative to the U.S.-based S&P 500. Whether commodities help the TSX crush the U.S. markets once again, though, remains to be seen.

Energy is going into 2023 with considerable strength. But, as we found out last year, chasing performance seldom leads to desirable results. In fact, the pursuit of the hottest asset classes tends to lead investors into some hot water.

Now, energy isn't nearly as overheated as tech and growth stocks were in the back half of 2021. In fact, a case could be made that energy stocks remain deeply discounted at these levels, given the cash flows aren't heading south as quickly as the software company's revenue growth numbers.

## TFSA investors: The case for sticking with commodity stocks in 2023

Unlike tech in 2000 or 2021, energy has actual [earnings growth](#) supporting share price movements. A commodity plunge in a recession could induce more pain in top-performing commodity stocks. Still, valuations suggest that some risk of a commodity price pullback is baked in.

The rally in commodity plays began to run out of steam in the late summer of 2022. I view the stagnating rally as not a sign of concern, but rather an opportunity for commodity-light TFSA investors to get some exposure at pretty reasonable multiples.

Like it or not, commodities are key to a lowly correlated return in a year when almost every equity will move hand in hand with the broader market averages. Indeed, recessions tend to see nearly everything move in the same direction.

Commodity stocks, though, can maintain their trajectories with less care for where the rest of the

market heads. Indeed, commodity stocks didn't get the memo that we're supposed to be in a bear market.

Whether commodity prices continue to contract, I view commodity stocks as great places to lower your portfolio's correlation. With so many attractive yields in commodity stocks and low betas, I view early 2023 as a great time to be a net buyer of commodity stocks, rather than a trimmer.

Currently, I'm a fan of agricultural commodities (fertilizers) and gold. **Nutrien** ([TSX:NTR](#)) and **Agnico Eagle Mines** ([TSX:AEM](#)) are great producers I'd consider nibbling at right here.

## Nutrien: Strong secular tailwinds; gushing with cash

Nutrien is a Canadian fertilizer powerhouse that shined in 2022. Though the name peaked in spring and pulled back for most of the summer, the stock still finished the year with a strong gain (around 18%). Indeed, commodity prices have cooled in a major way in recent months, taking a jolt out of inflation.

Still, I think the retreat in Nutrien stock is overdone. At 5.46 times trailing price to earnings (P/E), TFSA investors seem to be treating the cash cow as a value trap. 2023 won't be nearly as prosperous as 2022 for the leading potash producer. That said, there's still a lot of outperformance to be had while commodities hold their own. Finally, the 2.5% dividend yield is the icing on the cake.

## Agnico Eagle: Ready to soar to new heights

Agnico Eagle is a gold miner that sports a 2.89% dividend yield and a much-improved mine portfolio after the acquisition of Kirkland Lake. Indeed, Agnico stock has heated up in the last few months, surging more than 50% since bottoming out in July. With gold prices picking up traction amid growing recession fears and rate-hike concerns, I think the stage is set for a big year for gold producers. There's no better miner to consider now than Agnico Eagle.

I'd stash it in a TFSA portfolio this January!

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

1. TSX:AEM (Agnico Eagle Mines Limited)
2. TSX:NTR (Nutrien)

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