



Can Energy Stocks Outperform Again? 2 Stocks That Could Ride High in 2023

Description

It's been a rocky past year, but (most) energy stocks managed to deliver positive gains for investors. Indeed, chasing performance is no way to do well as an investor over the long haul. Many beginner investors learned this the hard way in 2021. Back then, it seemed like you'd be a fool (that's a lower-case "f") for not investing in the hyper-growth stocks that only seemed to go up. That party came to a crashing halt, thanks in part to a hawkish Federal Reserve (in the United States) and Bank of Canada.

With interest rates marching higher, the stakes of investing in not-yet-profitable tech firms has grown considerably. The alarming thing is many of the beaten-down tech plays may still be a tad on the overvalued side.

Ultimately, it depends on when such growth stocks plan to become profitable, or, at the very least, make some progress in reducing cash bleed. Add a potential 2023 recession into the equation and the hyper-growth trade seems unlikely to come climbing back. At least not until the Fed goes from a hawk to a dove. Here in Canada, inflation numbers came in quite cool, sparking a modest rally during Tuesday's session. The Bank of Canada may pause rate hikes before the Fed does.

Searching for gains: From hyper-growth to the energy patch

Regardless, I still think it's a bad idea to play rates with the riskier stocks (hyper-growth) in the stock market. I think there are ways to make money that don't require you to lose any sleep in this environment. As earnings results come due, all eyes will be on how growth rates will fade.

For the hyper-growth companies that have delivered north of 30–40% revenue growth during the boom days of 2020 and 2021, a significant drop-off could add more fuel to the sell-off. In any case, I view energy stocks, not as akin to the hyper-growth stocks of 2021, but as an intriguing way to further diversify your [TFSA](#) or [RRSP](#) to eke out a gain in what could be another rough year of choppiness.

Energy stocks may still have a nice run behind them. However, valuations are still quite modest. Further, energy could continue to hold its own, even as this economy deals with a soft or moderate landing due to rate hikes. To the contrary, I think energy prices aren't nosediving anytime soon, even if

the world economy takes one or two steps back this year.

Suncor and CNQ stocks: Top energy stocks to watch right now

I like Canada's top energy stalwarts **Suncor Energy** ([TSX:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#)). In the energy patch, I view bigger as better. And these two behemoths, I believe, are capable of faring better in good times and bad. Looking ahead, I think SU and CNQ make great adds to a TFSA or RRSP.

First, Suncor and CNQ remain dirt-cheap, with both stocks trading just below eight times trailing earnings. If that's not cheap, I don't know what is. Further, I think a potential pullback or cooling off in oil prices is more than baked in at this point. Shares of both energy stocks faded into the back half of last year.

Second, stable oil prices should pave the way for more robust cash flows. And with that, generous dividend hikes. These stocks boast modest valuations, strong fundamentals, and the means to hike dividends at a double-digit percentage rate (CNQ last hiked its dividend 13% just over two months ago).

Finally, many Canadians may find a hedge in volatile markets in energy stocks. Indeed, energy isn't exciting like hyper-growth stocks are. However, commodities tend to move with less correlation to broader markets. This can pay off when a recession causes extreme volatility.

Though low betas do not mean less volatility in all environments (especially violent market crashes), I still think energy stocks make for great buys for those who are underweight energy in the new year. Sure, the best gains in energy may have come and gone, but I think there's more room to run with the senior players on the scene.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
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