Canada set to outperform global markets on boost from energy and agriculture stocks

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Home bias is often considered a negative for Canadian investors, but too much Canada could be a good thing in today’s market environment.

Canada is expected to outperform many other global markets in the months ahead thanks to its concentration in energy, agriculture and other sectors that have benefited from rising inflation. In addition, market experts say that record low unemployment (5.1 per cent in May), rising wages and an open immigration policy also bode well for the country’s economic growth in the near term.

The International Monetary Fund (IMF) cut its global economic growth forecast in April, given the economic fallout of Russia’s invasion of Ukraine. However, Canada’s outlook remained relatively intact. The IMF expects the global economy to grow 3.6 per cent in both 2022 and 2023, which are decreases of 0.8 per cent and 0.2 per cent, respectively, from its January predictions. Canada’s growth forecast was trimmed by two-tenths of a percentage point to 3.9 per cent, the smallest downward revision of all advanced economies. The IMF also kept its forecast for Canada’s economy to grow by 2.8 per cent next year.

Canada is one of the few markets to see upward revisions in its outlook for economic growth as well as earnings expectations for companies listed on the S&P/TSX Composite Index, Mackenzie Investments notes its 2022 mid-year outlook, citing Bloomberg data.

“While Canada is also vulnerable to an economic slowdown, we still believe that conditions exist for better relative economic growth in Canada versus other developed world markets,” says Lesley Marks, chief investment officer of equities at Mackenzie Investments.

“Canadian stocks haven’t been a big focus for investors for a long time, as they have looked to invest globally – and in the U.S. in particular,” she says.

With the change we’re experiencing today from a low-interest-rate environment to a higher one, investors need to consider Canadian stocks again as a part of their portfolio, she adds.

Ms. Marks says investors should be overweight in Canadian equities and underweight in U.S. equities at this time given the higher concentration in high-growth sectors such as technology and consumer discretionary south of the border.

And while an economic recession would be negative for commodities and, in turn, Canada, Ms. Marks forecasts the “floor on commodities will be higher than it has been in previous downturns” because of a lack of investment in the sector over the past decade or so, which will “keep supply in check.”

Christine Poole, chief executive officer and managing director at GlobeInvest Capital Management Inc. in Toronto, adds it’s “Canada’s turn to do better” than countries such as the U.S., driven largely by our commodities focus.

However, she notes Canada has other things going for it, including a friendly immigration policy that will help to increase the labour force and fuel demand for housing and consumer goods.

Ms. Poole says her firm has always turned to Canadian-listed companies for many of their income-producing stocks in sectors such as energy and utilities. And while she’s not proactively increasing exposure to Canadian stocks in the current market, she favours Canadian banks over those in the U.S.

“Canadian banks have shown they can outperform their U.S. counterparts,” Ms. Poole says, because of the relative economic strength here at home.