Don Coxe: Don’t join the crowd betting against Canadian equities

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Don Coxe, a contributor to Globe Unlimited’s Inside the Market, is chairman of Coxe Advisors LLP and is an adviser to several commodity funds. He has been consistently ranked as a top portfolio strategist.

The 42-per-cent collapse in crude oil prices since June has been a huge blow to Canadian equity prices, and has sent the loonie diving 7 per cent at a time the Canadian economy is widely admired and strong, compared with most economies in the industrial world.

What hit the TSX and the Canadian economy so suddenly?

Oil prices were set to soften this year, as total world production was exceeding demand, in significant part because of the fracking boom in the United States. Most observers thought the Organization of Petroleum Exporting Countries (OPEC) would cut its production to protect its members’ incomes and slash frackers’ profits. If these were ordinary times in the Mideast, that forecast would have been accurate.

But this has been a year of major geopolitical crises in the region, and the Sunni Arab oil states have found themselves facing grim challenges.

By October, it was becoming clear to us and others that Saudi Arabia and its Gulf Emirate allies could not afford to continue petro-pricing business as usual with sectarian wars exploding out of control, threatening the entire region.

In particular, they were infuriated that the Shia regime in Syria was being propped up by Iran and Russia. Moreover, Iran seemed to be getting closer to becoming a nuclear power with each month. Amid the chaos, the Islamic State terrorists had suddenly become a formidable challenge to the entire region, and they were getting increasing revenues from oil properties they had seized.

The Saudis had long since concluded that U.S. President Barack Obama was a weak reed – at best. So, we believe they felt forced to stop the cash flows to Syria, Iran and the Islamic State and deter Russia. They decided to keep pumping oil, allegedly to fight fracking, but also to weaken their regional foes.

No one knows how long this strategy will continue. The Gulf States have trillions in sovereign wealth funds to back their budgets.

If, as we expect, lower oil prices are here for an extended stay, then Canadian investors should be looking for the winners from cheap oil.

They number in the billions: They live in China, India, Japan, Indonesia, and Europe – and in Canada and the United States.