Inflation Is Spiking! 2 Stocks That Can Protect You

Description

Inflation expectations are flaring up. After a year of relentless money printing, Canada's central bankers are prepared for an economic rebound that causes record levels of inflation. The spiking prices of commodities indicates much more pain ahead. This flare-up of inflation has consequences for investors. Here's what you should be prepared for and how you can protect your portfolio.

Impact of inflation

Bank of Canada Governor Tiff Macklem recently reiterated the central bank's 2% inflation target. However, he admitted that the team was willing to see inflation overshoot that target temporarily. In other words, the central bank is okay with 2% *average inflation* over a period of time.

The rising cost of living has an impact on everyone. For consumers, the rising costs of food and fuel could prompt them to pull back on discretionary spending. Meanwhile, investors should consider inflation an invisible tax on their assets. If your portfolio gained 7% last year and inflation is 3% this year, your real return is just 4%.

Inflation also has complicated impacts on currency. Most currencies depreciate when inflation is higher. However, Canada is a commodity exporter, which means that the Canadian dollar could rise. In fact, it's already trading much higher against the U.S. dollar. If this trend continues, companies that earn money in foreign currencies could see earnings decline.

Inflation hedges

Companies that can pass the impact of higher costs through higher prices are winners in this environment. Payment processor **Nuvei** is a good example. If the costs of goods surge, Nuvei should see a spike in total transaction volume, which means its earnings will remain stable despite inflation. The stock could be an ideal buy for growth investors who are worried about inflation.

However, hard assets are traditionally considered better hedges against inflation. Real estate, gold and raw material exporters are the top beneficiaries. **Barrick Gold** and **West Fraser Timber** could be worth looking into. The price of gold and timber is already creeping up, which means these stocks could be effective hedges against inflation.

Gold is traditionally viewed as a hedge because it's a hard asset. Gold miner Barrick should see its profit margins rise if the price of gold remains elevated. Meanwhile, the price of timber is already skyrocketing and West Fraser's stock is up 42% over the past six months. Investors have been adding exposure to both of these stocks to protect against further price escalation in the raw material space.

One controversial theory is that Bitcoin could be another inflation hedge. The world's most popular cryptocurrency isn't a hard asset by any means and the supply is limited. The digital asset is also disconnected from the rest of the global economy, which renders it an effective hedge against inflation.

Bitcoin's resistance to price hikes hasn't been tested, but the price of each BTC has been remarkably stable over the past few months as inflation expectations rose. This asset's utility may be proven by the end of the year.

Bottom line

Investors and consumers across Canada should prepare for higher prices in the months ahead. A pullback in spending and the stock market can't be ruled out. To protect yourself, consider adding exposure to gold, property, transmitting companies and perhaps Bitcoin.

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