



## Top Canadian Stocks to Buy on Inflation Fears

### Description

Inflation [jitters](#) took a turn for the worst on Wednesday, as the Consumer Price Index (CPI) numbers surged 4.2%. Given the [vicious sell-off](#), investors seem to think that the Fed could be faced with considerable pressure to hit the rate hike button, perhaps far sooner than expected.

Yikes, 4.2% is quite high. It's a heck of a lot higher than the 2% or so target we've grown accustomed to. Before you hit the panic button and liquidate your portfolio starting with the highest growth names, you should know that the numbers probably aren't as hideous as they seem. And I think it's far too soon to conclude that the higher-than-expected CPI numbers are indicative of long-lived inflation that could turn the Fed from a dove into a hawk.

The Fed will have its minutes, but I still find it unlikely that Fed chair Jerome Powell will change his stance. He saw inflation coming, and I think it could very well be temporary, at least until supply chain issues are ironed out and demand can be met. Many supply chains are in disorder right now, and they'll probably be unable to meet demand until this horrific pandemic can end. Until then, it'll be nearly impossible for most gamers to get their hands on the latest consoles like the PS5 (PlayStation 5), which is still in short supply thanks to the chip shortage.

### Inflation is here, but you need not panic!

Until supply chains can normalize across the board, we'll probably see upward pressure on prices. And the Fed probably won't act until there's evidence that inflation may be sticking around for far longer than it expects. While hawkish commentary from the Fed could spark a far worse sell-off in the stock market with tech and growth leading the downward charge, one must consider the likelier scenario where the Fed is right.

Rates are creeping higher, but I don't think we'll reach a point such that inflation will become more problematic than lower employment through the eyes of the Fed. There's no sense in hiking rates only to cut them a few months down the road. In any case, the recent sell-off is more of a buying opportunity than something that requires you to drastically alter your portfolio.

If you're one of many beginner investors who's feeling amplified downside because of your overweighting in momentum stocks, though, it can't hurt to have a strong preference for value over growth. You should strike the right balance such that your portfolio will be prepared for *anything*. Rate hikes or not, Foolish long-term investors stay invested. As such, it's important to be ready to roll with the punches that Mr. Market or the Fed will throw your way. I do think that investors have a friend in the Fed, though.

## Top Canadian stock: Heading North West to escape inflation volatility

If your portfolio isn't properly balanced between growth and value, consider picking up a few cheap low-volatility names like **North West Company** ([TSX:NWC](#)). North West is a grocery company that serves the underserved communities that are tough for most other mainstream retailers to reach. If investors' greatest fears happen and rates rise, North West will be ready to do better than the pack.

Defensive grocers are pretty boring and tend to sport razor-thin margins. Higher inflation does not bode well for the margins of such low-margin grocery retailers. That said, folks living in remote communities don't really have much choice. In many communities, there are few, if any, suitable alternatives to North West's locations.

As such, I view North West as having a slight pricing power edge over a grocer like **Loblaws**. With solid ROIC numbers, a valuation that I view as depressed (12.4 times earnings), and a juicy 4.1% dividend yield, North West is a top Canadian stock for coping with inflation volatility that's likely to persist well into year's end.

## Foolish takeaway

Only time will tell whether the inflation surge will be temporary. Regardless, you should be ready for anything to happen and shouldn't look to ditch your top Canadian stocks for an excessive cash pile, which will certainly not be immune to the insidious effects of inflation.

### CATEGORY

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