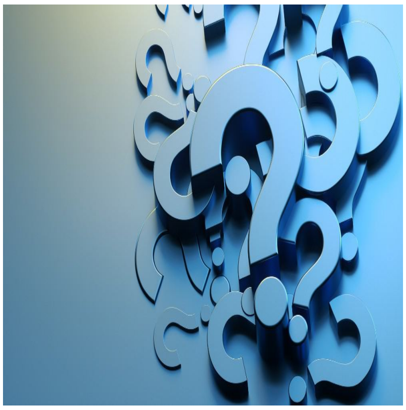

# Canada’s Inflation Spikes to 3.4%: What Should Investors Do?

### Description

Inflation has been a growing concern for investors over the past few months. Today, these concerns were validated with official data. Annual inflation accelerated to 3.4% in April compared with 2.2% in March, according to Statistics Canada. This means the price of consumer essentials are surging at their fastest pace in over 10 years.



Are we in a new era of prolonged inflation, or will this be a temporary wave of pent-up demand being unleashed? Experts remain divided, which is why long-term investors should probably consider both scenarios.

## Persistent inflation

Veteran investor Michael Burry, who was famously portrayed in the Hollywood blockbuster *The Big Short,* expressed concerns about a sudden spike in inflation earlier this year. Burry believes the fact that central banks have printed too much cash and flooded the system means the value of currency could drop and consumer prices could rise.

The Bank of Canada certainly expects inflation to spike up in 2021. However, if the rate of inflation remains too high for too long, they could be compelled to raise interest rates. Higher interest rates encourage people to borrow less and save more. This mitigates inflation, but could also have a negative impact on stocks and the housing market.

If you expect persistently high inflation, you may want to reduce your exposure to overvalued tech stocks and companies with slim profit margins. Instead, companies that can pass along higher prices to their customers are a better bet.

Payment processors like **Nuvei** could see higher transaction volumes if consumer prices keep rising. This insulates it from inflation. **Canadian National Railway** is another example of an inflation hedge. Or you could add lumber stocks to your portfolio.

## Transitory inflation

Investors should consider the broader picture when accounting for inflation. Sure, the official rate is 3.4% this month, which is higher than the central bank's 2% target. However, inflation was well below that target last year. In fact, annual price rise in 2020 was just 0.72% — well below the target level.

Central bankers and some economists, such as Claudia Sahm, believe overshooting the target for a short period is perfectly fine, because we've been undershooting for several years. These experts also believe that the inflation spike is temporary. As governments pull back stimulus measures, pent-up demand is exhausted, and the supply chain recovers from the crisis, prices should stabilize.

If you expect this to be transitory or temporary, this could be an excellent opportunity to buy growth stocks at a discount. Stocks like **Constellation Software** and **Shopify** are trading far lower than their historic highs. These high-flying stocks should become more valuable if it recedes.

## Bottom line

The official inflation rate is 3.4% in April 2021. That is substantially higher than last year, and the highest rate in over 10 years. There's no doubt that consumer prices are increasing. Now, investors need to consider whether prices will *remain high or steadily decline.*



Either way, your investment decisions over the next few months should certainly take rising prices into consideration.

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