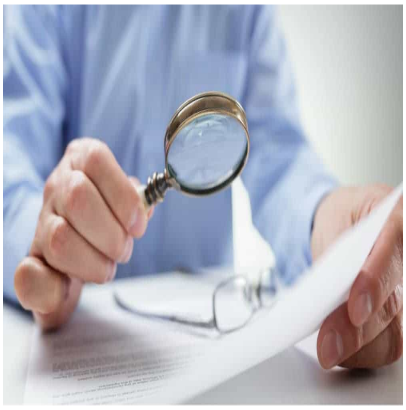

Need Capital Protection From Hot Inflation? This 1 TSX Stock Can Help You

Description

The COVID-19 pandemic has overshadowed every bit of news since mid-March 2020. Inflation didn't merit attention, and it remained dormant until the calendar flipped to May 2021. Now, the inflation scare is sweeping North American markets. Besides the new coronavirus variants, consumers are beginning to worry about a rising inflation rate.

In March 2021, the pace of inflation in Canada jumped to 2.2%. The danger of rising prices and costs is that it could stifle consumer demand and dent corporate earnings. It could also pressure the Bank of Canada to veer away from an easy monetary policy into a stricter one.

Somehow, the fear isn't as profound in the Toronto Stock Exchange (TSX), at least not yet. Canada's primary stock market index closed higher on May 14, 2021, and boasts double-digit gains (+11.09%) year to date. The energy, financial, and consumer discretionary sectors continue to lead the advancers. Only two sectors, technology and utilities, are in negative territory.

Inflation affects the equities market, and stocks respond negatively to high inflation. However, unexpected inflation could be disastrous, because it reduces earnings growth expectations and puts downward pressure on stock prices. Also, some sectors fare better than others when inflation is higher.

In the current situation, investors must look for assets that can protect capital and hedge against inflation. Instead of pushing the panic button, consider investing in real estate investment trusts (REITs). Generally, REITs can charge higher rents in high-demand, inflationary environments.

Only REIT in the healthcare sector

NorthWest Healthcare Properties (TSX:NWH.UN) is my top choice. Not only does it operate 186 income-producing rental properties, but it's the only one in the healthcare sector. The diversified portfolio of this $2.57 billion REIT consists of hospitals, clinics, and medical office buildings.

Likewise, NorthWest is the largest non-government owner and manager of such healthcare and medical facilities in Canada. The Q1 2021 (quarter ended March 31, 2021) earnings results prove the

REIT's defensive qualities. Its occupancy rate held steady at 97%, although net operating income fell slightly by 2.9% versus Q1 2020.

Notwithstanding the global pandemic, NorthWest's global expansion continued in 2020. The REIT is now present in the U.K. following the acquisition of 10 high-quality hospitals. Management plans to expand further its geographic reach in 2021, particularly in the U.S. and select Western European countries.

NorthWest's approach to scale and expand its assets under management is simple. The REIT will deploy available capacity within existing joint-venture vehicles and launch new fee-bearing capital pools. The twin moves should cement its lofty position as the leading global healthcare real estate asset manager.

Rental revenues should be recurring given the 14.3 years weighted average lease expiry. The current share price is $13.29, while the dividend yield is a hefty 6.02% dividend. Thus far, investors are gaining by 7.7% in 2021.

Inflation-control target

Since 1991, the federal government in Canada and the Bank of Canada have been setting inflation-control targets. However, the global pandemic has altered the usual approach. The central bank expects inflation to rise temporarily to around the top of the 1-3% inflation-control range. Meanwhile, interest rates will remain at the effective lower bound until the government's inflation objective is sustainably achieved.

CATEGORY

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Date

2025/07/29
Date Created
2021/05/19
Author
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