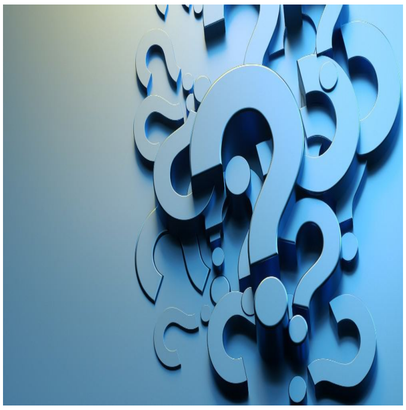

What Will High Inflation Mean for the Canadian Stock Market?

Description

A weird correlation has been observed between stocks and inflation. Value stocks tend to perform better when inflation is high, and growth stocks underperform during high inflation periods. The roles switch when inflation is low. But it's rarely that simple and straightforward, and a sudden rise in inflation as opposed to a gradual increase can produce relatively different results.

A sharp rise in inflation is often bad for business because companies have to absorb the blow, and it takes them several quarters to pass it on to consumers. One of the most actively used indicators of inflation is Consumer Price Index (CPI), and for April 2021, the CPI showed a significant surge both in Canada and across the border.

For Canada, the CPI increased 3.4% year on year, which is a stark comparison to March's 2.2% year-on-year growth. In the U.S., the CPI surged 0.8%, which is the most significant surge in the past 13 years. But the Fed in the U.S. and experts on both sides of the border blame this unprecedented surge in the CPI to the 2020 baseline, which shifted quite drastically from the previous year.

If the unnaturally high inflation means is simply a byproduct of the 2020 economy, its impact might not permeate the Canadian stock market too drastically. It means you might be safe buying some of the reliable stocks.

One of the Big Five

Toronto-Dominion (TSX:TD)(NYSE:TD) is the second-largest bank in the country and one of the largest financial institutions in North America. The bank recently got into some trouble in the U.S., where a class-action lawsuit was brought against the bank by some customers who proved that the bank was charging them excessive fees. TD has to pay almost $50 million as the settlement.

This piece of bad news hasn't impacted the stock yet, and it's still soaring to new heights. In the last 12 months, the bank has grown its market value by almost 56%, which is great news from a capital-growth perspective, but it has brought the yield down to 3.6%, which is still worth focusing on. TD has a powerful presence in the country as well as the U.S., and it's a highly stable stock, capable of any headwinds the stock market might suffer due to high inflation.

A financial company

Sun Life Financial (TSX:SLF)(NYSE:SLF) is a Toronto-based company with a market capitalization of $37 billion. The company offers a wide range of financial products under four umbrellas: insurance, investments, advice, and asset management. The bulk of the company's net income in 2020 was generated by three business types, asset management (32%), individual insurance (25%), and group insurance (21%).

It's an attractive stock for a number of reasons, even during market downturns and economic hurdles. It has a dominant position in its market, a strong balance sheet, and strong financials. It's a Dividend Aristocrat and has been growing its payouts for six consecutive years. It's currently offering a yield of 3.3%.

Foolish takeaway

The Canadian stock market might keep slumping further, but it's in no immediate danger of hitting a new yearly low. The energy sector is maintaining its valuation while the technology is sliding downward. The financial sector is going strong, and it's the momentum and direction of the energy and financial sector that might determine the trajectory of the S&P/TSX Composite Index.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:SLF (Sun Life Financial Inc.)
3. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks

3. Investing

Date
2025/08/25
Date Created
2021/05/21
Author
adamothman