Canadian Investors: Here’s How Inflation Can Impact Your Stocks

Description

Over the last few months, but even more so the last few weeks, worries of inflation have been heating up, causing concern among investors and impacting plenty of Canadian stocks.

This is something that many warned against last year, as so much stimulus was being added to economies. Governments didn’t have much of a choice, though. To prevent their respective economies from collapsing, governments and central banks worldwide had to work collectively to stimulate markets.

For Canadians, think of all the money spent on CERB in addition to all the money paid to help bail out companies. Plus, interest rates are near zero, making it cheap to borrow and incentivizing consumers to spend.

The problem is that in many countries, the economies have generally rebounded well, so with all this excess money that’s still in the economy, it leads to price increases as we know inflation. Inflation, to some degree, is ideal, but too much can be harmful.

So, to cool inflation, central banks will usually just raise interest rates. However, rising interest rates are not ideal when there are sectors of the economy that are still recovering.

There is no doubt we are going to get some inflation. It’s not clear whether it’s going to be as high as some economists are warning. Nevertheless, it’s important to understand how it could affect your Canadian stocks if it does materialize.

How does inflation impact companies?

As many Canadians know from a consumer standpoint, inflation tends to make things more expensive.

This is because the input costs of consumer goods will rise. So, as a consumer, you have a choice to either pay more for products or to not buy them. This ultimately impacts the sales of these consumer goods companies, as volumes of items purchased drop.

The other option is that a company doesn't increase their prices, in which case their margins take a hit. Either way, inflation impacts profitability, especially on consumer products. That's why consumer staples and especially consumer discretionary items are some of the worst-impacted stocks during periods of inflation.

On the flip side, Canadian stocks that can pass on the increase in price to their customers without taking a hit are businesses that will perform better during inflation –think gas stations. If the price of gas rises, it typically rises the same for every station. And consumers don't necessarily have a choice when it comes to filling up their vehicles.

This is why commodity companies are often some of the best performers during periods of prolonged inflation.

A top Canadian energy stock to buy now

Plenty of commodities producers will be stocks that are worth a buy. However, one of the very best is **Suncor Energy** (TSX:SU)(NYSE:SU).

Energy stocks are, of course, commodities producers. However, energy is also an industry that's recovering rapidly, as demand picks up worldwide.

And on top of all the momentum energy has, Suncor is one of the best Canadian energy stocks, with integrated operations giving it a massive competitive advantage.

Having vertically integrated operations is important, because it adds stability and makes Suncor more competitive.

It also gives it more control over its margins, though. This is crucial because, in a commodity down cycle, it can help preserve profitability, and when the sector is booming, as it is now, it can help expand margins and profitability.

So, in addition to being a considerably stable energy stock, it's also a great long-term growth stock.

The energy sector has several tailwinds now, making these stocks incredibly attractive today. I'd look to buy Suncor soon, though. There's a strong possibility the top Canadian stock won't remain cheap for long.

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danieldacosta