



## Get Ready for Higher Inflation With This Great Canadian ETF

### Description

Inflation has been gripping the headlines of late, and for good reason. We haven't witnessed inflation at these levels since the climb out of the Great Financial Crisis (GFC). Back then, inflation didn't sustain at problematic levels.

While most experts view the recent uptick in inflation (over 3% in Canada and over 4% in the U.S.), given pandemic-induced supply constraints and overwhelming demand for certain assets, I do think smart investors should play both sides of the coin. While inflation could pull back as it did during the aftermath of the GFC, it's important to remember that the circumstances are very different this time around. The magnitude of stimulus in response to the COVID-19 crisis is nothing short of unprecedented.

Naturally, inflation was to be a side effect of such money printing. That's why I urged investors to be ready for a potentially drastic growth-to-value rotation back in January. Overvalued growth stocks had the most to lose as inflation reared its ugly head. And now, here we are. Growth stocks have taken a hit to the chin, while most value stocks have shrugged off the volatility, inching higher as their growth peers sunk lower.

"I think it's only prudent for Canadian investors to re-evaluate their portfolios if they're overexposed to the frothier areas of the market," I wrote back in early January 2021, warning investors of a [growth-to-value rotation](#).

"Valuations, as a whole, aren't nearly as ridiculous as they were in the late 1990s. That said, there are probably many bubbles floating around out there that will stand to be burst. Fortunately, the effect of such bubble bursts, I believe, will mostly be contained to a few names and those who've diversified their portfolios may not even notice the impact."

Fast-forward to today and we've been hit with exactly the type of rotation I called for.

Speculative bubbles and expensive growth stocks are now in the process of correcting, with 2020 high-flyers like Bitcoin and **Tesla** now off over 30% from their highs. Meanwhile, the value-heavy **TSX Index**

and **Dow Jones Industrial Average** are a hair's breath away from their all-time highs. For those who didn't chase performance, you may have missed the last few months' worth of pain in the growthiest parts of the stock market.

## Inflation could continue to derail growth strategies

As we head into an inflationary or reflationary environment, many of us are entering uncharted territory. Inflation hasn't really been problematic for many investors. Many of us may have underestimated its impact on stocks. Advances in technology have served as a disinflationary force for all these years, after all. For many investors, it's a confusing time. And for those who chased growth, it's as painful as it is perplexing.

In this piece, I'm not going to make another call, as I have no idea if the Fed will be right or wrong to be so dovish. Rather, I'm going to bring your attention to a name that can help you be ready if the Fed continues to hold off on rate hikes in spite of higher-than-expected inflation. If the latest round of CPI numbers can be higher than expected, there's also a risk that such inflation can stick around for longer than expected — perhaps much longer.

With the recent damage already dealt to the growthiest stocks, I do think it's too late to be a seller. However, if you're light on value stocks and have nightmares about the Fed losing its credibility, it may be worthwhile to have a strong preference for value with any money you're looking to invest moving forward.

## A one-stop-shop Canadian ETF

Consider the **BMO Low Volatility Canadian Equity ETF** ([TSX:ZLB](#)), a diversified basket of low-volatility, mostly value names, many of which have juicy (and growing) dividend payouts. Now, the "low-volatility" tag may be a misnomer, given the ETF collapsed hand-in-hand with the broader indices during the coronavirus market crash. That said, the constituents of the ETF are pretty compelling, and many of them are neglected value stocks that I believe will stand to outperform should inflation linger for far longer than most expect.

The ZLB is a great low-beta [Canadian ETF](#) of primarily value names that should be viewed as a one-stop-shop for those looking to hop aboard [the value trade](#).

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### Date

2025/07/03

### Date Created

2021/05/24

### Author

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