



What TSX Stocks Should You Buy in May 2021 Amid the Inflation Surge?

Description

We have seen a remarkable economic recovery this year, and inflation has reached decade-high levels. According to Statistics Canada, the consumer price inflation [jumped](#) more than two percentage points in April to 3.4% — the highest level since 2011. As inflation continues to increase, the central bank may have to intervene and raise rates eventually.

What will that do to stocks?

Well, as rates increase, the cost of borrowing money increases, which dents emerging companies and, ultimately, growth stocks. So, markets as a whole turn to undervalued assets like value stocks, as they provide value in higher inflation periods as well.

Let's see which TSX stocks offer higher return prospects in an inflationary environment.

B2Gold

As inflation increases, the price of gold generally rises too. This could, in the end, benefit gold miners, boosting their profits and stock prices. Consider Canadian gold miner **B2Gold** ([TSX:BTO](#))(NYSE:BTG) stock.

B2Gold is a \$6.7 billion gold producer that operates three mines in Mali, Namibia, and Burkina Faso. Higher production and higher realized gold prices more than doubled its net profit last year. Investors can expect a similar performance this year as well if the yellow metal keeps on trading strong.

B2Gold has returned almost 400% in the last five years, including dividends, notably beating the **TSX Composite Index**.

Importantly, the stock is trading considerably cheap right now, which gives it a runway in case gold prices continue to rise.

Canadian Natural Resources

Canadian energy titan **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) is my second pick for an inflationary environment. In a broader context, higher inflation makes things more expensive. So, companies that can pass on their rising costs to consumers benefit from rising inflation.

Likewise, low-cost energy producer Canadian Natural Resources could be a smart pick in these markets. It is an integrated energy producer with a diversified product portfolio.

The company has a strong balance sheet relative to peers and displayed disciplined cost management amid the pandemic. That's why CNQ continued to raise shareholder dividends last year as well when peer energy companies suspended their payouts. CNQ stock yields nearly 5% at the moment, way higher than the industry average.

Notably, consistently rising [dividend payments](#) in inflationary periods provide unique stability to portfolios.

Alimentation Couche-Tard

Convenience store operator **Alimentation Couche-Tard** ([TSX:ATD.A](#))([TSX:ATD.B](#)) is my third pick for long-term investors. It operates more than 9,200 stores in North America under banners like Circle K, Couche-Tard, Ingo, Holiday, etc.

Couche-Tard has returned more than 600% in the last decade. Its consistent earnings growth and lucrative acquisitions drove this rally. Its extensive geographical presence, solid balance sheet, and scale will likely continue to unlock significant value to shareholders in the future. Besides, its discounted valuation makes it an appealing bet in these kinds of markets.

Bottom line

Inflation and stock returns are generally inversely correlated. However, some pockets in the markets, as discussed above, outperform in an inflationary atmosphere. So, there is no need to panic and sell stocks as inflation has reached record levels.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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4. Metals and Mining Stocks
5. Personal Finance
6. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSEMKT:BTG (B2Gold Corp.)

3. TSX:ATD (Alimentation Couche-Tard Inc.)
4. TSX:BTO (B2Gold Corp.)
5. TSX:CNQ (Canadian Natural Resources Limited)

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Date

2025/08/23

Date Created

2021/05/24

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