Worried About Inflation? Here Are 2 Top Canadian Stocks to Buy Now

Description

Inflation is a topic that is certainly top of mind for many Canadian investors. It seems like just about everything seems to be costing more today than it did a year ago. Certainly, inflation and the rising cost of goods is a natural part of the economy. The Canadian Consumer Price Index (CPI) has generally grown between 0.5% and 3% annually for the past 10 years.

Too much inflation can shock the stock market

However, any drastic variance could cause a stock market pullback. Just in the month of April 2021, inflation increased year over year by 3.4%. That is compared to only 1% in January 2021. That kind of jump can make investors uneasy. While this statistic alone might be concerning, given the crazy year it has been, it is not completely unusual.

Best to own a diversified stock portfolio

It is difficult to tell if this inflationary trend is temporary or a longer-term issue. The best Canadian investors can do is have a diversified and balanced investment portfolio. As few as 10 to 15 stocks can greatly hedge your risks from temporary economic shocks. Own some income and growth stocks and have a portfolio exposed to a broad array of sectors. If you are worried about the effects of inflation on your wealth, here are two Canadian stocks you could think about owning.

A top Canadian pipeline stock

A great stock to hedge against inflation is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). If you want dividend security but upside from the recovery in the energy cycle, this is an ideal stock to own. Pembina operates assets connecting Western Canadian oil production to North American and global markets. It also has processing facilities and a commodity marketing business.

During the pandemic, this business performed better than many expected. Unlike some Canadian peers, it never dropped its dividend. Its dividend payout is largely covered by its cash flows produced by its highly contracted pipeline assets. Pembina took the pandemic as an opportunity to reduce redundant costs, streamline operations, and uncover excess operational capacity.

Today, this business is leaner and more focused than ever. Consequently, with inflation driving energy prices up, this business is primed to earn record adjusted EBITDA and cash flows. As energy demand rises, it benefits from rising volumes and higher pricing margins. While you wait for these factors to occur, investors collect a very well-covered 6.5% dividend.

Real estate is a good inflation hedge

Real estate has historically been a great hedge against inflation. Often, as inflation rises, so does demand for property. Consequently, property values go up. During inflation, the value of cash declines. However, landlords are able to stash their cash into real estate assets that expand in value (generally, in line with inflation). Likewise, economic strength gives landlord’s leverage to raise rental rates.

One Canadian stock that should benefit from this trend is **WPT Industrial REIT** (TSX:WIR.U). Other than being listed on the **TSX**, this stock is not very Canadian at all. It operates a portfolio of industrial, warehouse, and logistics properties exclusively in America. Its properties are well located at major transportation and logistics hubs in the United States. Its tenants are a mix of consumer staple businesses and e-commerce providers. As a result, it performed with resilience through the pandemic and maintained very high occupancy rates.

Demand for industrial real estate is insatiable. This REIT is seeing very strong rental rate growth and near 100% occupancy today. Its properties are more valuable than ever. Today, it is focusing on growth through a large joint-venture pipeline. Likewise, it is utilizing its development expertise to expand its portfolio and grow its cash flow yields. This stock is cheap compared to U.S. peers, but it pays an above-average 4.5% dividend right now.

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Date
2025/08/27
Date Created
2021/05/26
Author
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