



1 Top Canadian Stock to Buy Amid Inflation Fears

Description

Worries about inflation have been heating up for the last several weeks, leading to investors wondering how it will [affect their investment returns](#) in Canadian stocks. These inflation fears do not come as a surprise. Considering the amount of money that the government was forced to pump into the economy to stimulate it, rising inflation rates were inevitable.

Governments did not have a choice. They had to keep their respective economies from collapsing under the financial pressure created by the pandemic. The Canadian government spent a substantial amount of money by spending on the Canada Emergency Response Benefit (CERB) and other stimulus programs. The low-interest-rate environment also made it cheaper for consumers to spend more money.

Rising inflation

Many countries rebounded well from the pandemic. With so much excess money circulating in the economy, prices increase. Inflation can be good to a certain degree. However, it can be harmful unless interest rates rise.

Central banks typically raise interest rates to cool down inflation. But rising interest rates are unsuitable if several industries have not yet recovered from the economic fallout of the pandemic.

Effect of inflation on companies

Inflation makes things more expensive because the input costs of consumer goods will rise. As a consumer, you will have to choose whether to purchase items at a higher price or not purchase them. The sales of consumer goods companies drop due to waning demand and rising prices. If companies do not raise prices, their profit margins suffer.

Inflation effectively impacts profitability in either scenario, particularly when it comes to consumer goods. When inflation hits, the stocks in the consumer staple sector are some of the worst hit.

Top Canadian stock to consider

Regardless of rising prices, consumers typically do not have a choice but to spend money on fuel because of its necessity. Canadian stocks that produce oil or make money in the energy sector can continue generating reliable returns for investors during inflationary markets.

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) makes for an ideal stock pick if you are considering hedging your bets against inflation by seeking energy sector stocks. The recent industry tailwinds are leading to a rapid recovery for the energy industry, as demand continues to increase worldwide.

Suncor is well positioned to capitalize on the rising demand. The company's vertically integrated business model allows the company's operations to run smoother and give it a competitive edge in the industry.

Having an integrated operation also lets Suncor practice greater control over its margins. The business structure lets Suncor preserve its profitability during market environments with lower commodity prices. The same structure helps it expand its profitability and improve its margins when the commodity prices are rising, like right now.

Foolish takeaway

Considering the industry tailwinds picking up pace now, stable energy stocks like Suncor Energy could be [attractive picks](#) for your investment portfolio today. Suncor is already up by 82% from its valuation in November 2020. It seems like the stock might no longer remain as attractively priced for too long.

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