



The Best Canadian Stocks for a High Inflation World

Description

Inflation, inflation, inflation. That's the unavoidable [hot topic](#) you're likely to hear about ad nauseam these days when you tune into any financial TV show. Here in Canada, inflation is running hot at just north of the 3% mark. In the U.S., inflation is that much scarier, with the Consumer Price Index (CPI) at 4.2%. With worries that the Federal Reserve will pivot with its policies, many investors are bracing themselves for what could be a rocky finish to 2021.

Inflation: Ready or not, here it is

With more COVID jabs being put in arms, though, the economy faces its biggest boom in years. The economy could very well overheat, and the Fed may be more inclined to keep rates low despite any inflation, which won't reveal itself as transitory until many months down the road.

Indeed, the Fed is between a rock and a hard place right now.

Warren Buffett did warn that there would be consequences of the unprecedented stimulus to avert the disaster that could have been earlier last year. The man has no idea what's up next, though. He's remaining humble but is prepared for whatever Mr. Market is going to throw his way next. Investors should do the same in the face of unprecedented uncertainty as the inflation genie is released from the bottle.

Could even more unexpected inflation be on the way?

Whether or not there will be a fourth major wave of COVID-19 remains to be seen. The latest variant recently discovered in Vietnam is a mutation of a mutation. It's more contagious, but there isn't enough conclusive data to determine if vaccine efficacy rates will be severely impacted.

Undoubtedly, we're still in a race between variants and vaccines. At this juncture, it seems as though vaccines will come out on top, with rampant inflation and an overheating economy on the other side of this pandemic. Should we see a fourth wave of COVID-19, restrictions could be imposed once again,

and more stimulus could stand to exacerbate and prolong the recent bout of inflation.

Where should investors be amid such an inflationary environment?

I'd urge investors to position their portfolios in a way such that they won't be wiped out should worse come to worst, and we're dealt with even more unexpected inflation that could mark the end of an era. For growth-hungry young investors, that means curbing exposure to speculative and unprofitable high-growth stocks, as these are the names that will continue to feel the brunt should rates ascend over a Fed surprise or data that suggests inflation could be permanent.

Now, don't sell all your growth stocks here, as they have the most upside if it does turn out that the Fed is right and inflation is transitory. Instead, balance your bets and ensure you're well-diversified with the perfect blend of profitable value and unprofitable growth.

For names that will fair well in inflationary environments, consider commodity plays like oil producer **Suncor Energy**, best-in-breed gold miner **Barrick Gold**, high-rate beneficiary **TD Bank**, a resilient REIT, or a firm with immense pricing power like **Disney**. It's these such names that can help you better weather an inflation storm that many investors may be ill-prepared for.

In terms of inflation hedges, it's [tough](#) to match gold. Warren Buffett had ditched his shares in 2020, but I do think he has a plethora of reasons to get back in despite his prior distaste for the unproductive shiny yellow metal.

Foolish takeaway

Nobody knows if inflation will be tamed over the next year. But why not prepare yourself for the worst as you hope for the best?

Should inflation run wild, I think gold could be in for some major outperformance versus the stock market. And if you're not ready for an inflationary environment and the prospect of much higher rates, it's only wise to back your portfolio with gold, shares of profitable businesses with pricing power, commodity plays, and the big banks.

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