



## 1 of the Best Canadian Stocks to Buy for Higher Inflation

### Description

Inflation is coming, and it may not be as transitory as the U.S. Federal Reserve thinks it will be. Many Canadian investors have probably never had to deal with investing in a high-inflation environment. Inflation has been pretty tame for a considerable time now, but what happens when the genie comes out of the bottle?

Well, it can be pretty tough to put back in without rate hikes. All eyes will be on Fed chairman Jerome Powell, whose job got that much harder in 2021. The man will surely move markets with his words, as investors look for permission to pile into either the [battered](#) high-growth stocks that have corrected at the hands of higher rates.

Undoubtedly, investors may think they'll have to jump into one of two camps with regard to what inflation is going to do next. The transitory inflation crowd who puts their trust in the Fed and the inflationistas who think inflation isn't going anywhere anytime soon.

Amid profound [uncertainties](#), I think it's only prudent to be a member of both camps. There's a chance that higher inflation could linger, but there's also a chance that there may be nothing to fear but inflation fear itself. Moreover, if more investors pile into the latter camp, problematic inflation could end up becoming a self-fulfilling prophecy, even if inflation would have been more benign otherwise.

### Pick your poison: Higher inflation or rate hikes?

If inflation lingers at 5% for another year or two, savers will take a hit to the chin. And if the Fed hikes rates to combat such inflation, stocks could correct viciously, as they did in late 2018. If you've got a perfect mix of growth, cash, and reflation trades, then you'll be ready to tackle whatever type of environment is up ahead.

I'd imagine many beginner investors are still overweight growth and tech after their incredible run in 2020. So, to bring one's portfolio back into balance in response to a potential inflation threat, one must look to cheap reflation trades, which should better hold their own versus growth stocks if it turns out inflation is so bad that the Fed will need to pivot unexpectedly.

## Fighting inflation with oil

In this piece, we'll have a look at one of the best Canadian stocks that I'd look to buy for those who aren't ready to grapple with the return of potentially problematic inflation. Enter **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), a hard-hit Canadian oil kingpin that's still off considerably from its highs, despite the prospect of much higher oil prices.

Commodities are a great way to combat inflation. And whenever you can punch your ticket at a price below intrinsic value, you drastically reduce your risks of losing money, even in the face of a Fed-induced taper tantrum.

It's been a tough few years for Suncor. The company reduced its dividend amid COVID pressures last year, while surrendering the throne of Canada's largest oil sands operator to its top peer Canadian Natural Resources.

WTI currently sits at US\$71 — well above 2020's highs — yet Suncor stock has still failed to recover the ground lost during the COVID crash. I think that's a buying opportunity for investors who missed out on the recent run-up in fossil fuel plays. The 2.7% yield isn't too bountiful, but given the favourable industry backdrop, I'd argue that the stock is a buy for its more generous dividend-growth trajectory.

## Bottom line

Investors ill-prepared for lingering inflation should look to the commodity space to hedge their growth and tech exposure. Far too many beginners that are overweight tech are not ready for an inflationary environment.

While they'll stand to do better if the Fed stands pat, I think it's unwise only to play one side of the coin. If there's one thing 2018 taught us, it's that the Fed can catch the complacent off guard. Don't be complacent. Be prudent. Play both sides of the coin, and you'll do well, regardless of what cards the Fed will deal you this week.

### CATEGORY

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