



## 2 Top Reflation Stocks for Canadian Investors

### Description

Inflation hit a 13-year high of 5% in the United States for the month of May 2021. The U.S. Federal Reserves says the move is transitory, but the jump in the Consumer Price Index (CPI) has investors wondering which stocks might be good buys if prices continue to rise.

### Reflation plays

Hard assets such as real estate tend to be good places to put money in an inflationary environment. Energy stocks also tend to do well, and banks can benefit from the eventual increase in interest rates required to keep inflation from getting out of control.

While the U.S. Federal Reserve and the Bank of Canada typically have a target inflation rate of 2%, the central banks are willing to let inflation run higher than this number in the short term. They are of the opinion that the sharp jump in prices will not last and they don't want to kill the economic recovery by increasing interest rates too quickly.

The next few months will show whether inflation is truly transitory, or becoming more permanent. Fund managers are starting to adjust portfolios on the assumption higher prices are here to stay.

### Imperial Oil

**Imperial Oil** ([TSX:IMO](#)) is a Canadian integrated energy company with production, refining, and retail operations.

The strong rebound in the price of WTI oil from US\$36 per barrel last fall to the current price above US\$71 has a meaningful impact on Imperial Oil's upstream margins. The company reported strong [Q1 2021 results](#) and raised the [dividend](#) by nearly 23% from \$0.22 per share to \$0.27. Imperial Oil is also ramping up its share buyback program.

As the Canadian and U.S. economies reopen and restrictions ease, demand for the products Imperial

Oil makes at its refineries should rebound, driving even better results.

The stock has already gained 65% in 2021, but more upside should be on the way. Analysts expect oil to top US\$80 in 2021 and oil bulls see a surge as high as US\$100 in the next few years.

## TD

**TD** ([TSX:TD](#))([NYSE:TD](#)) is Canada's second-largest bank by market capitalization. The financial institution is also one of the top 10 in the United States.

TD earned \$3.8 billion in adjusted profits in the most recent quarter. Return on equity was better than 17% and the bank is sitting on a mountain of capital built up to weather the pandemic storm. Government aid programs have helped avoid a worst-case scenario for TD and its peers. As a result, the CET1 capital ratio of 14.2% is well above the required level.

TD will likely use the extra cash to boost the dividend and increase share buybacks once the banks get the green light to resume the programs. Analysts also speculate TD could use the billions of extra funds to make another strategic acquisition south of the border.

Interest rates will eventually move higher. This could put pressure on over-extended mortgage holders, but the bank would also benefit from higher net interest margins. In most cases, higher interest rates are a net benefit for the banks.

## The bottom line on the reflation trade

Imperial Oil and TD bank are leaders in their respective industries and should benefit from rising inflation. If you are searching for top reflation stocks for your portfolio, these two deserve to be on your radar.

### CATEGORY

1. Bank Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:IMO (Imperial Oil Limited)
3. TSX:TD (The Toronto-Dominion Bank)

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