2 Top Canadian Stocks for July 2021

Description

No, the market doesn't like the U.S. Fed's recent rate hike comments. While they're still maintaining a relatively dovish stance, one should not fear a stagflationary environment like the one suffered through the 1970s.

Fed Chairman Jerome Powell has full employment taking precedence over inflation. However, he's still not going to take his eyes of inflation, especially if evidence suggests it's less transitory in nature. You see, the Fed is still hoping to keep inflation in a target range of just north of 2%, which, I believe, will make a repeat of the 1970s highly unlikely.

By focusing on employment, but also keeping inflation on watch, Powell is more than likely to navigate us through this horrific environment without sustaining substantial damage, either via rampant inflation or sub-optimal employment.

Don't sweat it: Inflation is probably going to be transitory

In any case, investors shouldn't pay too much merit to the recent rise in inflation, as it's the savers that are likely to take the biggest hits to the chin with inflation in the 3-5% range. Personally, I think inflation will peak in July 2021 if it hasn't already.

Moreover, given the Fed's comments and technology's deflationary impact, I'd say it's likely for inflation to fall into the 2-2.5% range by year's end.

Such a scenario could allow the Fed some flexibility with its rate hike schedule, which is expected to hit in 2023.

In this piece, we'll have a closer look at two unfairly battered Canadian stocks that may be worth picking up on the recent bout of Fed-induced weakness. Consider **Metro** (TSX:MRU) and **North West Company** (TSX:NWC), two great Canadian grocery retailers that could have room to run should inflation temper down going into 2022.

Metro

Metro is arguably the best-run grocer in the country. But, as you may know, the grocery business comes with some pretty thin margins. Add rising inflation into the equation, and the grocers could be in a spot to take a modest hit.

Amid recent inflation jitters, Metro stock finds itself down 11% from its all-time highs. I'd look to pounce on the stock as shares plunge into their multi-year channel of consolidation. Investors will stand to rake in a bountiful 1.7%-yielding dividend alongside what could be some handsome capital gains, as we escape this inflationary environment.

The stock trades at 15.8 times forward earnings, which is not at all a high price to pay for a growthy defensive retailer with an exceptional operating track record. Over the past three years, Metro has averaged 10-11% in annual revenue and earnings growth over the past three years. That's some solid growth, putting Metro stock in an exclusive class of Canadian consumer staple growth stocks.

North West

North West is a lesser-known retailer that serves various rural communities, primarily on the northwest coast. The Canadian stock isn't as growthy as Metro, but it does have a juicier dividend, which currently yields just north of 4%. The stock is off 5% from its all-time high and could be headed back towards its multi-year consolidation channel in the low-$30 levels.

I'd look to dollar-cost-average into a full position, as North West is one of the most resilient retailers out there. Moreover, by serving the underserved, North West is effectively less vulnerable to new entrants (think Amazon and meal-kit service providers) that threaten to disrupt the top grocers.

The stock trades at 10.3 times trailing earnings, which is far too low given the calibre of business you're getting.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)
2. TSX:NWC (The North West Company Inc.)

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