



3 Ways High Inflation Could Ruin Your 2021

Description

StatCan reported that inflation in Canada went up by 0.02% between April and May 2021 [to rise to 0.36%](#). The most significant price hikes were observed in gasoline, furniture, and shelter. It is no secret that housing prices have been soaring for the last few years.

Looking at all this inflation might start to make you feel uneasy. Inflation is a term used to describe a sustained increase in the prices of goods and services within a period. Some might see inflation as a good sign for the economy, while others might consider it a sign of a struggling economy.

I will discuss three ways in which inflation can ruin your year. I will also tell you about how you can use inflation to your advantage.

1. It deteriorates purchasing power

As the prices for goods and services increase, the first and most obvious effect is the deterioration of purchasing power. Let's suppose that the price for a cup of coffee was half a dollar a few years ago, and the same cup costs \$4 today. Such an increase in its price could have happened due to several reasons, including rising demand without supply following suit, price pooling by dominant players in the industry, or simply because coffee has become more popular.

Regardless of circumstances, higher prices for goods that are impossible to substitute make it more challenging for someone to purchase them.

2. It raises borrowing costs

Governments have an incentive to keep the prices in check to prevent hyperinflation. Typically, governments rely on the relationship between inflation rates and interest rates to control the prices. If interest rates are low, people can borrow money at much lower rates, encouraging spending and investing.

The increased spending and investing will, in turn, lead to more inflation and cause further problems. Central banks can reduce rampant spending by increasing interest rates. However, there is a need to maintain a delicate balance so that rising interest rates do not lead to deflation.

3. It can encourage spending

As prices begin to rise, the typical response is to buy now for cheaper rather than later for a higher price. It can see consumers stocking up on things that will probably not lose value, like cash amid rising inflation. Stuffing the freezer with food, getting new shoes, filling up the gas tank are all common.

Many investors also choose to invest in gold and other precious metals to take advantage of their rising prices amid inflationary environments. However, the volatility of these assets can cancel out their benefits, especially in the short term.

The increased spending in anticipation of inflation can ironically provide another boost to inflation rates.

Foolish takeaway

An inflationary environment can become devastating for stock market investors as many investors sell off their shares to park their money in safe-haven assets. A good strategy to fight the impact of inflation on your portfolio is to invest in assets that profit from inflation rather than lose from it.

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) could be an ideal income-generating asset to consider for this purpose. The energy giant relies on selling gasoline and exporting crude oil to buyers in the U.S. to generate revenues. Rising gasoline prices have been a significant contributor to the rising inflation rates.

Oil and gas prices tend to rise during inflationary environments. It means that consumers end up spending more on these commodities, leading to even higher prices.

While that effect is not always guaranteed, higher prices do increase profit margins for oil companies. Greater margins mean that companies like Suncor have offer better growth and higher shareholder returns.

Suncor is recovering from the damage it took last year due to the pandemic, reporting \$2 billion in funds from operations during Q1 2021.

If you are worried about the impact of inflation on your capital, allocating some of it to assets that profit from an inflationary environment makes sense. Suncor could be an [ideal stock to consider](#) for this purpose.

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