



Is Inflation Here to Stay?

Description

North America is experiencing an unprecedented wave of inflation. In America, consumer prices rose 5.4% in the 12 months up to June this year. Meanwhile, monthly [inflation has surged to 3.4%](#) here in Canada and could possibly go higher in the months ahead.

Investors must now consider whether this higher rate of inflation will persist or decline rapidly in the years ahead. Here's a closer look at the two possible scenarios and what investors could do to protect themselves.

Is inflation transitory or persistent?

There's no doubt that the cost of living is rising right now. However, institutional investors and economists are divided about whether these higher rates will persist or decline rapidly.

Some argue that the lower base effects of the previous year and excess household savings from government stimulus will dissipate. By 2022, they predict, the economy could look much more normal, which means the rate of inflation will decline to roughly 2% *on average*.

Critics of this theory argue that the central banks have kept rates too low for too long. Meanwhile, governments have been overspending on a similar scale. This devalues the currency and could lead to a persistent wave of inflation that lasts several years.

It's too early to tell which camp will win. However, investors could start preparing for both scenarios with a high-quality dividend stock with tangible assets.

All-weather investment

An all-weather investment is a company that should deliver reasonable returns regardless of inflation. If consumer prices keep rising, this company should be able to raise prices and sustain its book value. If they don't, investors should see great performance anyway.

Tricon Residential ([TSX:TCN](#)) is a top pick. The company owns and manages a portfolio of 31,000 properties across the United States and Canada. Many of these units are single-family rental properties that have seen a surge in valuations. By 2022, experts expect these properties to also see a surge in rental income.

In other words, Tricon should see a rapid rise in both book value and funds from operations in the year ahead. Housing, after all, is a core element of inflation.

However, if inflation subsides, Tricon should see its cost of borrowing stagnate. Central banks won't need to raise interest rates or cut back stimulus measures if inflation is lower within a year. With cheaper borrowing, Tricon can build or acquire even more properties, expanding its portfolio.

This company should be the winner in both scenarios, which is what makes it such an attractive bet in 2021. Unfortunately, other investors have already caught onto this idea. The stock price has doubled over the past year, and its dividend yield is down to just 2%. It's still a safe haven but is no longer undervalued.

Bottom line

The economic reopening across North America is causing inflation. Some say this will persist, while others say it's temporary. In both scenarios, robust companies with tangible assets like Tricon should come out ahead. Adding this stock to your portfolio could be a good idea.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:TCN (Tricon Residential Inc.)

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