1 Great Canadian Stock to Fight off Inflation

Description

Many of today's investors don't know what it's like to face problematic levels of inflation. Over the past few decades, inflation has been rather tame, and any post-crisis bouts have proven to be transitory.

The recent pick-up in inflation in response to the coronavirus stimulus has been of major concern (5% in the U.S. and around 3.5% here in Canada) to many in the first half of 2021. But the U.S. Federal Reserve still seems confident that the recent inflation spike will be transitory as it was out of the last recession.

With the market calming down, it seems as though investors are finally putting their trust in the Fed. Why wouldn't they? Many pundits are inclined to side with the Fed and their benign views on inflation. Still, many bears and inflationists argue inflation could be longer-lasting than most folks on the Street have been led to believe.

Undoubtedly, longer-lasting problematic levels of inflation above 5% could take a massive bite out of stocks. And they could inspire the Fed and the Bank of Canada to hike interest rates a few months quicker than expected.

Inflation: What if it's *not* transitory?

It's tough to tell what inflation's next move will be. There may be nothing to fear, but inflation fears itself. In any case, I think it's smart to be prepared for the less likely outcome that sees 3-5% or higher inflation sticking around past 2021. Now, inflation and pressure to hike rates are terrible for stocks.

Any evidence of long-lasting inflation could take a toll on the broader markets. But let's be real, stocks are actually a great way to bring the fight to inflation!

Indeed, unprofitable growth stocks aren't suitable ways to prepare your defences against an inflationary environment. They're most at risk of taking on amplified damage. The further profits lie in the future, the less their discounted cash flows will be worth today.

The best defence against higher inflation lies in good, old-fashioned dividend-paying value stocks that are profitable today. Precious metals like gold are also a great way to prepare your defences against a prolonged period of inflation. And while I'm not against upping your gold exposure here, I do think cheap inflation-resilient Canadian stocks would be the best fit for most investors. The ones that pay a growing dividend will better combat inflation and allow investors to prevent the erosion of their wealth's purchasing power.

Canada Goose: Incredible pricing power

When analyzing value stocks, you can gain an added edge by insisting on the firms with pricing power. Such firms can increase prices in response to inflation and pass the resilience to shareholders. Consider **Canada Goose** (TSX:GOOS), a luxury parka maker that I view as a tremendous value with the stock down over 44% from its 2018 all-time high.

The winterwear company has incredible brand power. So much so that the firm can raise prices in response to inflation without losing a considerable amount of sales. You see, Canada Goose products such as the $1,000 parkas are what economists may be inclined to refer to as "Veblen goods," which are a type of luxury good which may experience higher demand after a price increase.

Undoubtedly, luxury brands like Canada Goose are all about status. A reputation for having items at higher prices bolsters a brand's luxury appeal. The firm's goods are already expensive.

If the company were to hike prices by 5% after high CPI numbers, I'm sure demand would remain far more robust than most other firms that lack a powerful luxury brand.

With such pricing power comes great inflation resilience. As such, investors seeking shelter should give Canada Goose stock a look while it's still modestly valued.

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joefrenette