Inflation Worries? 1 Top Hedge on the TSX Index

Description

Inflation reared its ugly head in the first half of 2021. Whether or not it goes back into hibernation is anybody's guess. Regardless, the second half of the year is likely to be chock-full of surprises that not even the experts will see coming.

At this juncture, it looks like the Fed is playing things by ear, as they should.

The prospect of runaway inflation and higher rates could crush unprofitable high-growth tech stocks, as they did temporarily in the first half of the year. With the insidious "Delta" variant causing local outbreaks across various parts of the world, though, it's impossible to tell if we're destined for another cold winter of lockdowns.

Such lockdowns and their hit to the economy would make it that much harder for central banks to tighten, especially the Fed, which prioritizes full employment over curbing inflation. Given the profound uncertainties relating to coronavirus variants and their ability to roll back reopenings, the magnitude of unpredictability remains high. As such, investors should invest accordingly and be prepared for whatever the second half of 2021 has in store.

In this piece, we'll have a look at one of my favourite inflation hedges for investors who are not yet prepared for the horrific, albeit less likely, prospect of runaway inflation. After all, it's never a bad idea to be prepared for negative surprises, at least with a small chunk of your portfolio.

Right now, **Barrick Gold** (TSX:ABX)(NYSE:GOLD) strikes me as an opportunistic buy for those worried that inflation could get a tad out of hand in the second half of 2021 before potentially normalizing in early 2022.

Barrick Gold shines during inflationary environments

Gold tends to fare quite well during times of inflation. Despite recent inflation jitters, gold prices have taken a major hit to the chin, thanks in part to continued popularity in cryptocurrencies, which are viewed by some as a new-age alternative to gold.

As I've noted in numerous prior pieces, cryptocurrencies like Bitcoin don't live up to the gold standard, at least not in my books.

"In the end, it's not just a low correlation to the equity markets that matters, but how it fares when the going gets really tough. In the last panic, the 2020 stock market crash in response to the coronavirus, Bitcoin traded like equities — riskier equities, in fact," I wrote in a prior piece. "What good is an asset's low correlation if it's nullified when it matters most?"

Undoubtedly, many investors are at risk of finding out the hard way that cryptocurrencies are not a suitable substitute for gold. And should weakness in Bitcoin and the like continue into year-end, Barrick Gold and the broader basket could get a lift, as investors move money out of speculative tokens and back into the unloved precious metal.

While you could do very well by just betting on gold bullion in an inflationary environment, investors looking for a "productive way to play an unproductive" asset, I believe, would be best served by owning Barrick Gold stock for its 1.7% dividend yield.

Bottom line

Barrick is a best-in-breed producer with a handsome dividend policy. With shares off over 33% from their 2020 highs, I'd argue that now is a fantastic time to punch your ticket if you're light on inflation hedges.

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