
# Inflation Hedge: 1 Top TSX Stock to Buy Now for 2022

### Description

Inflation is quickly becoming the focus of retail and institutional investors heading into 2022. As a result, many are shifting their investment strategies.



## Inflation outlook

Inflation in Canada and the United States is currently running well above the 2% target considered healthy by the central banks. In fact, Statistics Canada reported this month that inflation hit 4.1% in August 2021, marking the highest level in 18 years.

The Bank of Canada maintains its position that price spikes are transitory due to near-term global supply chain challenges that are creating shortages across a wide spectrum of industries.

The price of lumber, for example, has plunged from the 2021 highs and other sectors could see similar price crashes as supply and shipping glitches get sorted out. However, some other pain points look set to continue well into 2022, including surging fuel costs, higher home and rent prices, and rising food costs.

The next few months will determine whether the central banks are correct, or if the analysts predicting persistently high inflation will prove the wiser. The head of the U.S. Federal Reserve recently warned Congress that inflationary pressures could last longer than previously anticipated.

The impact for investors could be earlier-than-expected hikes in interest rates. This would drive up borrowing costs and potentially put highly leveraged firms and homeowners in a difficult situation.

Bond markets are already reacting with treasury yields moving higher. The recent selloff in tech stocks is another indication the market is starting to think the Bank of Canada and the U.S. Federal Reserve might be underestimating the strength and sustainability of the inflationary pressures.

# Best stocks to buy now

Companies that produce commodities should do well in an environment of high inflation. Let’s take a look at one top Canadian oil and natural gas producer to see why it might be an interesting pick right now.

## Canadian Natural Resources

**Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is a giant in the Canadian energy sector with vast oil and natural gas resources and production operations. The company owns oil sands, conventional heavy oil, light oil, offshore oil, natural gas, and natural gas liquids facilities.

The rise in oil and natural gas prices in 2021 caught many analysts by surprise. WTI oil recently topped US$75 per barrel and natural gas hit its highest point in seven years.

On the natural gas side, a global surge in demand is rapidly drawing down reserves heading into the winter months. Early cold snaps in North America and Europe could set the stage for natural gas to stay elevated through the spring of next year.

Oil demand is also strong, supported by rising fuel usage. Airlines are ramping up capacity and commuters will soon hit the highways again in waves.



CNRL raised the dividend by 11% in 2021 and another large increase should be on the way in 2022. The company expects to generate more than $7 billion in free cash flow in 2021 and is using the excess funds to reduce debt and buy back shares. The flood of profits could be even higher next near.

Investors who buy the stock today can pick up a 4% dividend yield.

## The bottom line

Inflation could certainly cool off once the supply chain bottlenecks are sorted out and the pandemic spending spree slows down. However, it makes sense to tilt part of the portfolio to companies that should benefit in an inflationary environment. If you have some cash to put to work, CNQ stock looks attractive today.

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