



1 Great TSX Stock I'd Buy as Inflation Lingers

Description

There are plenty of [opportunities](#) out there — many that are hiding in plain sight. In this piece, we'll check out one Canadian stock I'd be inclined to buy and hold for many decades at a time.

Consider shares of **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), which rapidly went on the retreat on Thursday's brutal session of trade. BMO ended the day down 1.5% in what was a pretty broad weakness across the board. Indeed, with the U.S. Federal Reserve admitting that inflation was "frustrating," going as far as saying it could extend into next year, it seems as though rate hikes are going to have come sooner rather than later. But why did the banks selloff? That's a good question. I think Mr. Market is marking down great Canadian stocks across the board, and if you're light on financials, BMO stock seems to have a compelling entry point, as shares continue to consolidate in the mid-\$120 range.

Inflation could linger: Think financials

Has the Fed made a horrific mistake by not combating inflation sooner rather than later? Only time will tell, but there's a good chance that problematic levels of inflation could continue to persist through 2022 and maybe even 2023. It's not an ideal situation. And it's one the Fed probably discounted, with their initial "transitory" stance that could backfire in a big way, as inflation shows no signs of cooling off. Here in Canada, the inflation predicament is worsening, with inflation rising above 4% — the highest it's been in quite a while.

As your wealth gets eroded at a quicker rate, investors are going to need a solution. The Canadian banks are a great way to prepare for an environment where the Fed may have to admit they were wrong and start hiking rates at a rapid rate to compensate for their lack of action. Could persistent inflation turn a dove into a hawk? We'll have to wait and see. Regardless, it may represent one of the most significant risks to this market. That's why investors should continue to favour the big Canadian banks, as they take a breather before what could be another leg higher.

Best bank for your buck?

Bank of Montreal is my favourite bank to space the space right now. It's clocked in some pretty solid results over this past year, outpacing the likes of **TD Bank** and some of its brothers in the Big Six. With shares trading at just 1.5 times book value and 3.1 times sales, I think investors are getting an absolute bargain ahead of what could be a rising-rate environment.

It's not just promising industry tailwinds that have me bullish. BMO has a nice mix of U.S. and Canadian banking exposure, with around 60% of the top line derived from Canada and 30% from the United States. Undoubtedly, the Fed is likely to act first with rate hikes, and the Bank of Canada is expected to follow suit. As a result, BMO could begin to outpace its domestically exposed peers (except TD Bank) over the next 18 months.

Bottom line

Inflation can be unforgiving and very difficult to deal with. Fortunately, BMO sports a 3.4% dividend yield that should (mostly) offset the impact of 3-5% inflation over the medium term. And as banking dividend hikes are given a "go," I suspect it'll be tough to keep BMO shares lower. They're too [cheap](#) at just 11.8 times earnings, especially after four consecutive quarterly EPS beats.

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