Canada Inflation Is the Highest Since 2003: These 2 Stocks Could Prosper

Description

Political analysts said Justin Trudeau might not win the snap election because Canada's inflation rate rose to its highest point since 2003. The sitting Prime Minister was victorious, although the liberals didn't get a majority. Statistics Canada reported that the consumer price index climbed to 4.1% in August 2021.

The reading was above Bank of Canada's 3% target and higher than previous consensus estimates of 3.9%. Governor Tiff Macklem forecasts inflation to creep to 3.9% in Q3 2021. He maintains the position that it's a temporary spike caused by global supply-chain disruptions and pent-up demand for services in the reopening phase.

Economists point to the surge in housing prices as the culprit for the rise in annual inflation. On the stock market, high inflation spooks investors. It creates downward pressure on stocks whenever people expect lower earnings growth. However, some companies could benefit from high inflation.

Stocks like **Summit Industrial** (TSX:SMU.UN) and **Metro** (TSX:MRU) could prosper if Canada's inflation rate accelerates in the coming months.

In times of high inflation, the beneficiaries are lenders with fixed repayments plans, firms that can reduce real wages, and owners of real estate investment properties. Sal Guatieri, a senior economist at **BMO** Capital Markets, said inflated home prices would likely push more people into the rental market. He expects further upward pressure on rents through this year.

Top real estate stock

While Summit Industrial isn't in the residential market, the high demand for industrial properties won't wane anytime soon. The $3.68 billion real estate investment trust (REIT) was already a top pick in pre-pandemic due to the e-commerce boom. It owns light industrial properties, a proven asset class with low market rent volatility.

The 157 income-producing properties with generic-use spaces are highly marketable. Also, Summit

spends little or nothing at all on CAPEX, maintenance costs, and leasehold improvements. The tenant base is broad and diversified too. In Q2 2021, the REIT continues to impress investors.

Summit's revenue and net rental income rose 18.1% and 19.3% versus Q2 2020. The occupancy rate was at a high of 98.8%. The current share price is $21.08, while the dividend is 2.68% if you invest today. Income investors should have peace of mind and rock-steady payouts.

Recession-resistant asset

Metro is a recession-resistant asset, first and foremost, because the business model is low risk. The $14.58 billion company operates a network of food stores (950) and drugstores (650). It isn't a high flyer nor a high-yield stock, but it's a defensive asset. At $60.26 per share, the year-to-date gain is 7.5%. The dividend offer is a modest 1.66%.

Based on analysts' forecasts, Metro can potentially climb to between $65.08 (+8%) and $70 (+16.2%) in the next 12 months. I'm not sure if the analysts in their price targets factored in the inflation rate. Grocers usually do well in inflationary periods. They can pass higher commodity prices to consumers.

However, Metro and its industry peers face a dilemma if inflation is too high. Consumers tend to change retailers or reduce grocery spending. The shift in behaviour could impact the bottom line of the top grocer.

Value of money

Rental property owners and grocers are winners when it comes to inflation. Unfortunately, the public at large, including savers, are losers. Let's hope policymakers can keep inflation in check to prevent the value of money from falling.

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