



2 Stocks to Buy Now if You Are Worried About Inflation

Description

Inflation is running hotter than the Bank of Canada's target rate of 2%.

Economists have different views on whether the spike is transitory and for how long inflation will remain at elevated levels. Some pundits say rising prices are not going away, even after the supply-chain bottlenecks disappear.

If you are of the opinion that the current situation will persist for two or three years, it makes sense to consider some stocks that should benefit in an inflationary environment.

Barrick Gold

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) is one of the planet's largest gold miners with five of the top 10 tier-one mines in the world. The company is also a large producer of copper.

Gold is widely viewed as a good hedge against inflation. The theory has its supporters and critics, but it makes sense for people who worry about inflation to have some gold exposure.

Gold is priced in U.S. dollars. When the American dollar drops in value against a basket of key international currencies, the price of gold tends to rise. Holders of dollars can protect against the decline in the value of their money.

In the case where someone lives in another country and inflation is a problem, owning gold is a way to protect their wealth and hedge against a severe devaluation of the currency versus the dollar.

Central banks also buy gold as part of their hedging strategies. Printing money to stimulate economic activity is becoming more common with interest rates at such low levels. The downside of this strategy is the potential severe devaluation of a country's currency. Owning gold diversifies reserves.

Barrick Gold trades near \$23.50 per share at the time of writing compared to \$40 when gold hit US\$2,080 per ounce. Gold currently trades close to US\$1,768 per ounce. That's only down 15% from

the 2020 peak, yet Barrick Gold is down more than 40%.

The company's balance sheet is in good shape, and the board paid out significant funds to investors in 2021 through the dividend and a special return of capital. A big dividend increase could be on the way for 2022 and Barrick Gold's share price should take off if gold catches a new tailwind next year.

Royal Bank

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is Canada's largest financial institution with a [market capitalization](#) above \$180 billion.

The bank is very profitable, even during challenging economic times. In fact, Royal Bank typically earns net profits of better than \$1 billion per month and delivers a return on equity that is the envy of most large global banks.

Persistent inflation could force the Bank of Canada and the U.S. Federal Reserve to raise interest rate sooner than anticipated and by larger amounts that the market expects. Higher interest rates drive up borrowing costs, and this can put highly leveraged businesses and homeowners in a difficult situation.

However, higher interest rates tend to be a net positive for banks, even as defaults rise. They can improve net interest margins, and banks are able to generate better returns on cash they have to keep available to cover deposits.

Royal Bank isn't as cheap as it was in 2020, but the stock is still reasonable at the current multiple of about 12 times trailing earnings, especially when you consider the quality of the business.

The bottom line

Barrick Gold and Royal Bank look like good picks to add to your portfolio today, even if inflation proves to be transitory. In the event inflation remains persistently high, these stocks should benefit.

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3. TSX:ABX (Barrick Mining)
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