2 Inflation-Fighting TSX Stocks I'd Buy As Interest Rates Rise

Description

Canadian inflation rose to 4.7%, the fastest level since 2003. Undoubtedly, U.S. inflation is still hotter at just north of the 6% mark. Still, Canadian investors must be aware of the risk associated with higher levels of inflation that could persist for longer than expected. At writing, it seems like the Bank of Canada (BoC) is more than willing to begin to process of raising rates sooner than the U.S. Federal Reserve.

Inflation is hot, but it can be tamed if the BoC acts fast in 2022, with two or even three rate hikes. Such hikes would still leave rates near historical lows, making the case for continuing to own common stocks a strong one. At the same time, a slower pace of rate hikes could allow elevated inflation to continue plaguing savers and those hoarding too much cash. That's why inflation-fighting **TSX** stocks that stand to benefit from a rising-rate environment may be among the best of places to be in for the next three to five years.

Consider shares of **Intact Financial** (TSX:IFC) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), two magnificent financial stocks that could heat up as rates rise gradually over the next several years.

In the meantime, each stock has a rock-solid dividend payout that should help investors fight off any inflation that could still linger for another few quarters. The Federal Reserve views inflation as transitory. But there's always a chance that they could be wrong and will have to take action after the fact. For that reason, it's wise to hedge your bets by being ready for persistent inflation and tame inflation, but higher rates as a result.

Moreover, valuations have been quite stretched, especially among American technology companies. In Canada, the TSX still reeks of value.

Intact Financial

Intact Financial is a top property and casualty insurance play with a less-than-stellar dividend yield that typically lies in the 2% range. Today, shares sport a 2.2% yield. Although small, it's positioned to grow at an above-average, somewhat more predictable rate over time. Indeed, P&C insurers tend to be less fickle than life insurance-focused ones with wealth management businesses tacked on. For that reason, Intact is a more resilient play that's likelier to bounce back faster from a structured economic downturn.

Moreover, Intact is a very well-run insurer, and the valuation, I believe, doesn't reflect their capabilities. At writing, the stock trades at a mere 14.8 times trailing earnings. Given the calibre of insurer you're getting (shares up a respectable 80% over the last five years), shares seem like an absolute bargain here as inflation persists to and before rates begin to really rise.

Bank of Nova Scotia

For investors seeking a greater yield, the Bank of Nova Scotia is an intriguing option. Shares of the name yield 4.4%. With banking dividend hikes getting the green light again, expect BNS to make up for lost time.

Today, shares of Canada's most internationally-focused bank are just shy of reaching new all-time highs. Given the better macro environment for financials, BNS stock looks like it could be on the cusp of a big breakout to new highs. At 11.5 times trailing earnings, BNS shares are also cheaper than many of its peers in the Big Six.

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3. TSX:IFC (Intact Financial Corporation)

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Date

2025/07/22
Date Created
2021/11/20
Author
joefrenette