



Canada's Inflation at 13-Year High: 3 Stocks to Build an Inflation-Hedged Portfolio

Description

Canada's [inflation rate](#) peaked at 4.7% in October — its highest rate in 13 years. This peak came as the reopening of the economy created pent-up demand in industries that were shut down during the pandemic. One industry that took the biggest blow during the pandemic was oil, as the global lockdown halted all types of transportation — road, rail, air, and water.

Hence, when the economy reopened, a V-shaped recovery in energy prices drove inflation. Energy prices surged 25.5% year over year in October. The surge in gasoline prices increased transportation and logistics costs, thereby affecting all other prices. Even in February 2003, energy prices were the key driver of inflation (4.5%).

How to build an inflation-hedged portfolio

Although such a peak in inflation is rare, Canada has average annual inflation of 2.1%. When you plan your portfolio, you should ensure your returns are above 2.1% or else you are losing value. The main reason for investment is you sacrifice your current purchasing power to get a higher purchasing power in the future. But inflation keeps increasing annually, and to be wealthier in the future, you should earn inflation-beating returns.

To build an inflation-hedged portfolio, consider investing in industries that benefit from higher inflation. As energy prices were the cause for inflation peaks, the energy sector is a good investment option.

Canada has been seeing house prices surge for a decade. This makes real estate a good inflation hedge, too.

Gold is a traditional hedge against inflation. Whenever paper currency falls, the gold price rises. But this time, a new digital gold has come as an alternative asset class that can act as an inflation hedge.

Based on the above points, I have identified three stocks that can inflation-proof your portfolio.

Three stocks for an inflation-hedged portfolio

Canada's oil giant **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is the biggest [beneficiary](#) of inflation, as WTI crude is trading above US\$78/b barrel while the company has reduced its cost to around US\$35/barrel. Hence, it comes as no surprise that Suncor doubled its 2022 dividend after slashing it by 55% during the pandemic. The surging oil price drove Suncor stock price up 47% between August 20 and November 20. This 47% jump more than offsets the impact of a 4.7% inflation rate and gives real returns.

Canada's largest retail real estate **SmartCentres REIT** ([TSX:SRU.UN](#)) is another beneficiary. Although SmartCentres derives most of its rental income from shops, it has also expanded into residential and commercial properties. The stock surged 48% between October 2020 and 2021 due to a recovery in the real estate market. Here again, capital appreciation gives higher real returns, but you have to buy these stocks at the dip.

You also get an added advantage of a higher dividend yield. Just to give you a hint, SmartCentres's dividend yield crossed 9% during the pandemic dip. If you locked in this yield, you have hedged your portfolio from inflation.

I wanted to suggest a gold stock, but **Bitcoin**, also known as digital gold, is more attractive than physical gold. [Cryptocurrency](#) is a new asset class that has no connection to inflation or the economy. The only thing that governs its prices is the demand and supply, acceptance of the currency and regulations around it. Gradually, regulators are coming to peace with considering cryptocurrency as an alternative form of payment. But there are still many things to work out. Instead of directly buying a crypto coin, invest in the stock of crypto miner **Hut 8 Mining** ([TSXV:HUT](#))([NASDAQ:HUT](#)). Its stock price moves in tandem with BTC price, giving you exposure to the price volatility.

Foolish takeaway

But the right time to buy these stocks is at the dip and not when inflation is at its peak. If you own the above stocks, you can sell some of them to benefit from their cyclical peaks. I expect the cyclical peak to ease somewhere close to February.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:HUT (Hut 8 Mining)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:HUT (Hut 8 Mining)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
5. TSX:SU (Suncor Energy Inc.)

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