Canadian Investors: How to Ride Out High Inflation in 2022

Description

High inflation doesn't appear to be showing signs of going away anytime soon. In the U.S., CPI numbers surged well above 6% and could test 7% come the next monthly reveal. While Canada's inflation has been lower than that of the U.S., one can't help but notice the ridiculous amount of price increases within specific areas. Undoubtedly, meat prices, used autos and shipping costs have gone through the roof. Such costs are put back on consumers, which, in turn, applied upward pressure on wages.

Slowing earnings growth and elevated inflation: How to invest?

With Omicron spreading rapidly worldwide, central banks still seem focused on fighting high inflation with interest rate hikes. The U.S. Fed has three on tap for 2022. Although tightening and tapering should help alleviate a bit of inflation, there's no telling how the CPI numbers will fare and when they will begin to fall towards the 2% target rate.

Indeed, Omicron and variants of concern that may follow could keep inflationary pressures high. Should more rate hikes be in order (could there be more than three in 2022?), stock markets around the globe could fall under considerable pressure. Hawkish surprises aren't great for markets, especially not high-multiple growth stocks, many of which continue to give up ground posted since the bottom in early 2020.

Crises and lockdowns should be net positives for many innovative tech companies, specifically those engaged in software development. Crises spark innovation, but with the U.S. unlikely to return to full lockdowns, given the economy's ability to adapt and live alongside the insidious coronavirus, the economic impact shouldn't be as severe once the Omicron wave peaks.

Variants of COVID can still weigh heavily on the Canadian economy, but not to the extent of 2020 or even the early innings of 2021. While comforting, a more resilient economy could allow central banks the means to better fight inflation with faster rate hikes. That does not bode well for the many high-multiple growth stocks that fared so well when the Alpha variant of COVID was dominant.

Could the growth-to-value rotation really kick in come 2022?

I'd say it's a plausible scenario that investors must prepare for. Indeed, more upside stands to be had in such growth stocks once they finally do ricochet off a bottom. That said, prudent investors don't have to step in front of a steamroller to make money in this kind of market. Value stocks are a relatively safe spot that can dampen the blow of a continued selloff that's mainly been concentrated in the biggest growth winners of the past two years. Indeed, it may be too soon to reach for the names that have already shed 30-40% of their value.

Value plays like **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) offers a compelling value proposition with a pretty wide margin of safety. The company behind Tim Hortons, Burger King, Popeyes and Firehouse Subs has been quite a laggard of late, thanks to the COVID crisis and its effect on dining rooms. The company has taken steps to improve its pandemic resilience. While the global growth plan may have lost a step, I'd say that Omicron's impact on future sales may be exaggerated, as the firm's heavy investments begin to pay off in the form of sales growth.

At the end of the day, brands can power through all sorts of harsh environments. As inflation continues weighing on consumers, expect them to shift towards better value propositions. With some of the best deals in the fast-food space, expect Burger King and Popeyes, in particular, to start to do more heavy lifting into the new year.

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