Protect Your TFSA From Inflation!

Description

Canada's inflation rate has flared up to 4.8% on an annual basis. That's the highest rate in over 30 years. To combat this, the Bank of Canada is expected to raise interest rates next week and throughout 2022.

However, investors need to consider the fact that even with aggressive rate hikes, the benchmark rate would be below inflation. Four rate hikes get us to 1.5% — significantly lower than inflation. In other words, investors should protect their Tax-Free Savings Accounts (TFSAs) from this invisible tax, despite the government's efforts to change course.

One way to protect your portfolio is by betting on the raw materials that seem to be driving inflation. Here's how.

TFSA inflation hedge

Teck Resources (TSX:TECK.B)(NYSE:TECK) is a potential hedge in this environment. The mining and metals company specializes mostly in copper, metallurgical coal, and zinc. While it is impossible to predict winners and losers in the electric vehicle space, Teck Resources is well positioned given the diversified nature of its metal exposure.

It was one of the best-performing stocks last year. Teck was up 50%, while the rest of the stock market was up just 24% over the course of 2021. The stock has also started this year on a roll, rallying by more than 10% since the start of January.

Electrified earnings

The fact that electric vehicles use four times more copper than internal combustion engine vehicles affirms a ready market and strong demand for the company's copper to power the electric vehicle revolution. Strong copper demand could make Teck Resources one of the best electric vehicle investment plays.

Third-quarter financial results affirm that Teck Resources is on the right trajectory amid the EV revolution. During the quarter, the company's top line grew 73% year over year to $4 billion. Adjusted net profit rose to over $1 billion compared to just $339 million the previous quarter.

Valuation

The impressive financial results can be attributed to a favourable commodity price environment as well as strong demand for copper and steel-making coal. The solid profit margin explains why the stock outperformed the overall market.

The company has been growing at double-digit percentage rates for the past two years. With persistent inflation and the electric vehicle boom, this trend could continue. Teck Resources is well positioned going into 2022. While trading at a price-to-earnings multiple of 21, it goes without saying the stock is trading at a discount relative to its tremendous long-term prospects.

Bottom line

The Bank of Canada is likely to raise interest rates next week and for much of 2022. However, aggressive rate hikes simply won't be enough to fully tame inflation. This is why investors need to protect their TFSAs and investment accounts from this invisible tax.

Betting on a robust and growing commodity company like Teck seems like a good idea. This undervalued growth stock could serve as a safe haven during this market correction and period of economic turmoil.

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