



1 of the Best ETFs to Win the Fight Against Inflation in 2022

Description

The Bank of Canada (BoC) shocked, awed, and disappointed many last month when it didn't raise interest rates, instead opting to do nothing. Indeed, the BoC now runs a greater risk of falling behind the curve, just like the U.S. Federal Reserve, by standing pat with inflation where it is today. Inflation is running hot, and interest rates could help put that inflation genie back in the bottle after it was brought out in 2020. Will the BoC raise in its next meeting? Arguably, it will have to, given how quickly prices are rising across the nation. With the loonie sliding on the inaction, I think investors should take a second look at some securities to help combat what could be another year of persistent inflation.

While markets are currently pricing in a handful of rate hikes (perhaps four or so), I think there's a chance that three or fewer rate hikes may actually be dealt out. The BoC already shocked us to the dovish side this year. Can it do it again? Possibly. The Fed may even be more hawkish than the BoC. And if that's the case, the loonie could have more room to the downside, all while [inflation](#) sticks around.

Fighting inflation with commodities?

For investors, don't expect inflation will just magically go away, especially without faster and more furious interest rate hikes. Nobody knows if we'll have a dovish surprise this year. Still, with nothing but hawkishness baked into the markets after a January correction to the S&P 500, I'd argue that equities and inflation hedges are the places to be, not cash, bonds, and cash equivalents that remain incredibly unrewarding. Of course, cash should be saved to buy dips like the one experienced just a few weeks ago. In any case, many conservative investors likely have too much cash and less skin in the game, leaving them vulnerable to continued inflation.

Without further ado, consider the **iShares S&P/TSX Capped Energy Index ETF** ([TSX:XEG](#)).

iShares S&P/TSX Capped Energy Index ETF

Energy has been on an incredible run this year, and I don't think that's about to end anytime soon!

Higher oil prices are lifting all boats across Canada's hard-hit energy patch. With the tables now turned in their favour, I think there's no telling how much higher they'll stand to fly in the face of more inflation. Indeed, US\$100 WTI is a possibility, even though it was viewed as an absurdity just over a year ago!

The XEG has a good number of Canadian energy producers, many of which are still dirt-cheap, alongside a modest MER. While nobody knows if the momentum will carry into year-end, I am a fan of the risk/reward despite the remarkable performance in the rear-view mirror.

If you're energy-light, the XEG is a great way to go. The ETF is already up 18% year to date, so a pullback may be the most opportune time to give it a second look! Though, I'm not against buying here if you're looking to outpace inflation.

Bottom line

The XEG isn't necessarily an inflation hedge, but it is a great [low-beta](#) way to put your money to work if you're already overexposed to the broader equity markets. Energy is making a comeback, and I wouldn't be surprised if it's sustained into year-end.

CATEGORY

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1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)

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