2 Canadian ETFs to Beat Inflation

Description

The CPI (consumer price index) numbers just seem to creep higher and higher. With U.S. inflation soaring to 7.5%, Canadians have the right to be worried that Canada's inflation could follow suit. Indeed, it's not a great situation to be in, with the Bank of Canada (BoC) showing a lack of action in the first month of 2022.

We've heard it many times; the U.S. Fed should have already hiked rates. Some pundits, such as Bill Ackman, believe that the Fed should make that up with a larger-than-expected rate hike. While rate hikes are on their way, investors shouldn't expect them to bring inflation back down to levels that are deemed as normal (think around the 2% range). If anything, the Fed is likeliest to hike rates without disturbing the economy's recovery. While that may bode well for markets, as they attempt to stage a bottom from the latest dip into correction territory, savers and overly conservative investors may have reason to batten down the hatches for what could be yet another 12-18 months of price increases across a wide range of goods.

Forget savings. High-yield Canadian ETFs could be the way to tame runaway inflation!

Inflation is a nasty beast, and unless you invested through the 1970s, it can be difficult to understand the insidious nature of its impact. While I don't think recession-inducing rate hikes are in the cards this time, although some economic indicators are not looking great at this juncture, investors should be ready for anything. Extremely persistent inflation (think beyond 2024) and stagflation are still unlikely. But they are possible. That's why investors should have a Plan B in case this battle with inflation is less transitory than the Fed previously made it out to be.

Without further ado, let's have a closer look at two Canadian ETFs that can help you offset a portion of the hit dealt by ongoing inflation.

BMO Equal Weight Banks Index ETF

The big banks have been on a run of late, and they're probably just getting started, as the first round of rate hikes look to come in. With recent dividend hikes and share-buyback programs inspiring renewed optimism in Canada's top bank stocks, I think it's time to jump aboard if you've yet to do so. Not only are they in the sweet spot between high dividends and momentum, but they're also still relatively cheap, with multiples that are in line with where they usually are.

Indeed, chasing momentum can be a money-losing proposition. But the fundamentals remain so incredibly strong that it may make sense to average into the broader basket with an ETF, like **BMO Equal Weight Banks Index ETF** (TSX:ZEB).

The ETF owns an equal weighting across Canada's Big Six. Indeed, the ETF makes it easy to bet on the broader basket without having to worry about paying too much in the way of commissions.

BMO Canadian High Dividend Covered Call ETF

BMO Canadian High Dividend Covered Call ETF (TSX:ZWC) boasts a 6.1% dividend yield, powered by a wide range of high-dividend Canadian firms and a covered call options-writing strategy. How is the ETF different from a vanilla Canadian dividend fund? The covered-call part enhances the distribution at the cost of capital gains potential. If you see markets flatlining or sagging into year-end over Fed rate hikes, a covered call ETF is a great way to go.

While the ZWC isn't a great ETF to hold for an extremely long-term horizon if you're young and don't need the income, I think it makes sense to own if you're looking to play it cautiously. After a massive 2021, I'd argue that 2022 is the year to be cautiously optimistic. The ETF won't make you rich in 2022, but its juicy distribution will help you hold your ground against inflation. That's the most we could ask for at a time like this!

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1. Investing

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2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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