Are 2 or 3 Rate Hikes Enough to Curb Inflation?

Description

The inflation reading in Canada rose to an alarming 5.1% last month. It could force the Bank of Canada (BoC) raise its benchmark rate multiple times to curb inflation. Many analysts, including economists at the big banks, also see the need for rapid action. However, David Rosenberg, the chief economist and strategist at Rosenberg Research & Associates, disagrees with the aggressive approach.

Rosenberg thinks that raising the interest rate more than three times is an overkill. The Feds risk inverting the yield curve that could signal an economic contraction. He further argued that the consumer price growth surged over the past year was due to supply-chain challenges.

Canadians who are saving for the future or building retirement wealth should keep their eyes on the ball. Rising inflation is a concern, but it shouldn't alter long-term financial goals. If you're an RRSP and TFSA user, hold more income-producing assets than cash in the investment accounts.

Rapid decline

Rosenberg opined that contrary to consensus estimates, inflation will come down rapidly by the second half of 2022. He said about the Fed's potential action, "They'll raise rates two or three times and pause. And I actually think that'll be it for the cycle … There's no sense in driving a stake into the economy because of inflation."

BoC has no timeline regarding the start of rate hikes. However, Deputy Governor Tim Lane said the central bank is alert to the possibility that inflation could prove to be sticky than forecast. Lane said further that they can be forceful if necessary and are prepared to address whatever situation arises.

The TSX is back to negative territory (-0.22% year to date) on February 17, 2022, but it doesn't mean investors should get out of the market. You can stay invested and move to recession-proof stocks like **Capital Power** (TSX:CPX) and **Emera** (TSX:EMA).

Straightforward business model

Capital Power builds, owns, and operates high-quality, utility-scale generation facilities. This $4.53 billion wholesale power producer is growth oriented with a strategic focus on sustainable energy. Capital Power prides itself in having a straightforward business model. Its contracted and merchant portfolio generates stable and growing cash flows from a contracted and merchant portfolio with investment-grade credit ratings.

Management has committed to a 5% annual dividend growth through 2025. The share price is $39.82, while the dividend yield is 5.54% if you invest today.

Safety net with growing dividends

Emera is a safety net if market volatility is rising. Investors can expect growing dividends as the $15.33 billion regulated electric utility company promises an annual dividend hike of 4-5% through 2024. The target is achievable as the $8.4 billion capital investment plan (2022 to 2024) will increase rate base by 7-8%.

For the full year 2021, adjusted net income rose 8.7% to $723 million versus 2020. Scott Balfour, Emera's president and CEO, said investments in cleaner energy, infrastructure renewal, and service reliability should drive value and growth. The utility stock trades at $58.70 and pays a hefty 4.55% dividend.

End of historically low rates

The low-interest-rate environment will end soon, and analysts can only second-guess the central bank as to the number of rate hikes. Meanwhile, investors can negate the impact of rising inflation with growing dividends.

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