



## Inflation Is Soaring: Utility Stocks Could Be a Safe Haven

### Description

Canada's inflation rate hit a 30-year high at 5.7%. This figure doesn't account for the sharp rise in oil prices since Russia invaded Ukraine in late February. In other words, the rate could be high for the near future.

With higher prices and lower purchasing power ahead of us, investors should start protecting their portfolios with stocks that can withstand the pressure. Here's why the utility sector could be an ideal place to look for protection in 2022.

### Inflation protection

Consumers cut back on spending as inflation rises. However, there are some essential expenses that simply cannot be cut. This includes the household utility bills. Heating, electricity, and water are simply non-negotiable. That's why stocks in these sectors tend to retain their value better than the rest of the market during such cycles.

**Hydro One** ([TSX:H](#)) is an ideal pick for anyone looking to shrug off extreme volatility levels in the equity market. The stock was up by more than 14% last year, underperforming the TSX, which was up by about 20%. However, the stock has held a steady year to date and could go higher in the months ahead.

Hydro One is one of the largest utility companies in Ontario. It is the largest electricity transmission and distribution company with over 1.5 million customers. Supplying electricity to the country's most populated province is a formula for consistent and expanding cash flows. That's why this utility stock should be on your radar.

### Solid financial results

The top utility company delivered better-than-expected fourth-quarter results, with earnings attributed to shareholders of \$159 million, amounting to 27 cents a share. Revenue in the quarter was up to \$865

million from \$821 million delivered the previous year in the same quarter.

Hydro One trades with a [price-to-earnings](#) multiple of 20, which implies an earnings yield of 5%. That earnings yield is higher than most of its peers, which makes Hydro One stock a top pick.

Another reason to add this stock to your watchlist is the dividend yield. Hydro One offers a dividend yield of 3.36%. You'll recognize that this yield is lower than its earnings yield, which means the company has enough room to either reinvest in growth or boost rewards to shareholders. The high dividend yield is ideal for any investor looking to generate some passive income in addition to share price gains.

Trading at about \$32 a share, Hydro One looks like a neglected bargain as the risk-off trade shows start to take shape in the equity market.

## Bottom line

Inflation is a pressing concern for investors right now. The rate is already running at a 30-year high, and there are plenty of signs that it could go higher. To protect yourself you may need to add essential businesses to your portfolio. A utility giant like Hydro One could serve as a safe haven while the market turns volatile.

Keep an eye on this theme for 2022.

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