Canada's Inflation Rate Rises to 6.7%: Protect Your Portfolio

Description

Canada's inflation rate was just announced this morning, and it's higher than expected. The annual pace of inflation has surged to 6.7%. That's the fastest pace-of-cost increase since 1991, when the rate was 6.9%.

Here's what you need to know about what this number means for your portfolio.

What happened?

Statistics Canada reported the official inflation number this morning. The annualized rate now stands at 6.7% at the end of March 2022. That's higher than February 2022 and the biggest surge in roughly 30 years.

The driving force seems to be fuel costs. The ongoing conflict in Ukraine has pushed up the price of oil and gas. The rising cost of gasoline was responsible for 39.8% of the inflation jump this month. Rent increases, homeowners' replacement cost and accommodation expenses were the other big factors driving up inflation.

If fuel remains expensive, and the cost of mortgages and rents continues to rise, Canadian households could face more pain ahead.

So what?

There are two reasons this record-breaking number is concerning. Firstly, inflation is an invisible tax on your wealth. Your portfolio would need a dividend yield or capital appreciation of 6.7% just to *preserve purchasing power* this year. That's easier said than done. Most growth stocks are losing value, and even most dividend stocks don't pay over 6.7%.

Investors are looking at a bumpy road ahead, regardless of their investment style.

Another reason this is concerning is because the central bank wasn't prepared for it. The Bank of Canada had spent much of last year dismissing inflation concerns and calling it "transitory." Now, it's clear that the central bank is behind the curve, and the cost of living is spiraling out of control.

The central bank has only one key tool to mitigate this issue: interest rates. Bank of Canada has already raised its key interest rate from 0.25% to 1% in recent months. Last week, the team pushed the benchmark rate up by 0.50% in a single meeting — for the first time ever. This trend could continue.

Higher interest rates should impact corporations with too much debt on the books and overvalued real estate across the country.

Now what?

The writing is on the wall, and investors need to make moves accordingly. Offloading real estate investment trusts (REITs), overvalued stocks, and overleveraged companies from your portfolio is probably a good idea.

Instead, consider buying an undervalued stock with tangible assets and low debt. **Nutrien** (TSX:NTR)(NYSE:NTR) is an excellent example. One of the world's largest fertilizer producers, Nutrien is in a robust position for the years ahead. The rising cost of food and the shortage of fertilizers from Eastern Europe is boosting the company's bottom line.

Meanwhile, the stock trades at just 20 times earnings per share. The company's debt-to-equity ratio is also comfortably low — at just 45%. If you're worried about the economy and rising inflation, Nutrien could be your safe haven in 2022.

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