How to Generate Inflation-Proof Passive Income

Description

Inflation is the biggest concern for investors in 2022. Annual inflation is currently at 6.8% — the fastest pace in 31 years. The effects of this are palpable every time you visit the grocery store or pay for gas. However, this trend also has a noticeable impact on your passive income.

Put simply, you need a source of passive income that delivers a yield higher than 6% just to *preserve purchasing power.* A little dividend growth could also help you stay ahead.

I believe that dividend stocks backed by hard assets could deliver consistent passive income, despite the ongoing economic mess. Here are the top two passive-income stocks that should be on your radar for the foreseeable future.

Inflation-proof dividend stock #1

Energy distribution giant **Enbridge** (TSX:ENB)(NYSE:ENB) is a top pick. The energy stock offers a 6% dividend yield that's nearly in line with the current rate of inflation. This yield could expand as North America's energy crisis persists.

Enbridge operates the largest network of oil and gas pipelines on the continent. The extensive network stretched from Western Canada through several American states and into the Gulf of Mexico. The amount of fuel transported across this network has been steadily climbing since 2020. This year, it's expected to hit an all-time high.

The ongoing crisis in Eastern Europe and rebound in air travel have caused a fuel shortage. Meanwhile, the U.S. is exporting more fuel to plug the gap in Europe, which should increase volume further. All these factors boost Enbridge's top line. The company should see steady growth in free cash flow and dividends this year.

The correlation between Enbridge stock and fuel demand makes it an ideal passive-income strategy during this inflationary wave. Keep an eye on this opportunity.

Inflation-proof dividend stock #2

Hard assets like real estate are also considered inflation hedges. However, real estate investment trusts (REITs) with long-term leases in defensive sectors are particularly attractive in this environment.

NorthWest Healthcare Properties (TSX:NWH.UN) is an excellent example. The company manages an extensive portfolio of clinics and hospitals across Canada. These properties are not exposed to market cycles. In fact, the lease terms are locked in for an average of 14 years.

Meanwhile, NorthWest seems to have locked in low-cost debt during the pandemic. The company's debt-to-equity ratio has dropped from three in 2018 to 1.2 today. In other words, management now has a stronger balance sheet and more room to reward shareholders.

NorthWest stock offers a 6.15% dividend yield. It also trades at a price-to-earnings ratio of 6.7, which implies an earnings yield of 15%. That's more than double the rate of annual inflation. If you're looking for inflation-resistant passive income, NorthWest Healthcare should certainly be on your watch list.

CATEGORY

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TICKERS GLOBAL

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2. TSX:ENB (Enbridge Inc.)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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vraisinghani