



Inflation Investing: 2 Top TSX Dividend Stocks to Buy Now

Description

High inflation looks set to remain in place much longer than economists originally anticipated. This means the Bank of Canada and the U.S. Federal Reserve will likely raise rates more than investors currently think and at a faster pace than the market expects.

Investors need to keep this in mind when evaluating new stocks for [TFSA and RRSP](#) portfolios. The bloodbath in the tech sector could continue or at least keep valuations depressed for some time. In this case, cheap tech stocks might get a lot cheaper before they reach a bottom.

Commodity stocks, however, could extend their rallies beyond the recent record highs.

Other sectors that have come under pressure might now be due for a meaningful bounce. The banks and insurance companies, in particular, appear oversold today.

Finally, defensive stocks should hold up well through the rest of 2022 and into next year, as investors seek out reliable dividend payers that can pass rising costs through to their customers.

Let's take a look at two stocks that should be attractive picks right now.

Suncor

Suncor ([TSX:SU](#))([NYSE:SU](#)) trades near \$52 per share at the time of writing. That's up 56% in 2022, but the stock is only marginally higher than the \$44 it traded at before the pandemic, when WTI oil was half the price it is today.

Suncor's large oil sands peers have delivered much better returns in the past two years. Today, the stock looks [undervalued](#), even after you consider some of the operational challenges Suncor has faced and the fact that management cut the dividend in 2020.

Suncor raised the dividend by 100% late last year to bring the payout back to the 2019 level. The board just increased the distribution by another 12%, bumping the dividend to a new high.

Suncor's downstream operations, which include the refineries and gas stations, should continue to rebound in the second half of this year, as airlines ramp up demand for jet fuel and gasoline sales take off with the return of commuters to the highways.

Suncor's oil sands production business is gushing profits at current oil prices. Sanctions against Russia and the impact of underinvestment by OPEC and other global producers over the past two years should keep supply tight and prices elevated for some time.

TD Bank

TD ([TSX:TD](#))([NYSE:TD](#)) trades near \$95 at the time of writing compared to \$109 earlier this year. The bank remains very profitable and gave investors a 13% dividend increase for 2022.

Investors should see another generous payout hike for 2023 once TD closes its US\$13.4 billion purchase of **First Horizon**, a U.S. bank with operations in the southeastern states. The deal adds more than 400 branches and will make TD a top-six bank in the American market.

Rising interest rates tend to be a net benefit for the banks, even if the higher rates cause loan defaults to increase. TD has a strong capital position to ride out an expected downturn in the economy and the balanced nature of the revenue stream by both segment and geography should help the business navigate rough times.

Investors who buy TD stock at the current price can pick up a 3.7% dividend yield.

The bottom line on investing in an era of high inflation

Suncor and TD should benefit in the current environment of high inflation and rising interest rates. Some volatility should be expected, but these stocks deserve to be on your radar for a TFSA or RRSP portfolio today.

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