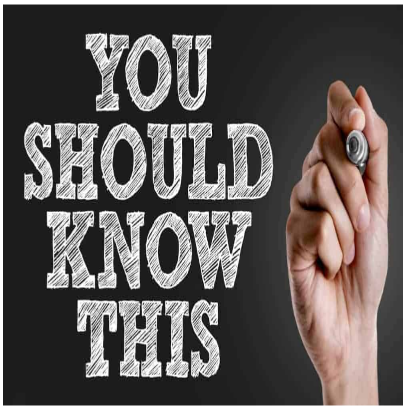

High Inflation: The Good and the Bad for Canadians

Description

High inflation has direct impact on the everyday lives of Canadians. Thankfully, Canadian investors can position themselves better financially.

The bad in high inflation

First, let's start off with the bad in high inflation. Just when we thought the inflation of 6.8% in April was bad, *Statistics Canada* reported inflation hitting 7.7% in May 2022, the biggest jump since January 1983. Already Canadians are feeling a lighter wallet at the gas pump, grocery store, and pretty much at every part of our lives. Canadians, particularly, those with many mouths to feed, are concerned their income cannot keep up with the ridiculously high inflation.

The Bank of Canada has been doing its job by raising the key interest rate target three times this year to 1.5%. The central bank essentially indicated it'll make more hikes if inflation doesn't get back in line. The inflation rate has a long way to go before it returns to the long-term target rate of 1-3%.

Interest rate hikes will cascade down to all kinds of credit, including mortgage rates, personal/commercial lines of credit, etc. This, in turn, increases Canadians' borrowing costs and interest expense.

The good in high inflation

High inflation leading to rising interest rates aren't all bad. For example, interest rates we get from our banks for our savings accounts and GICs are also increasing. Bond yields are also rising. This means our emergency funds and lower-risk investments can earn higher interest income.

Canadians who have excess cash to invest for longer term can also benefit from this situation. The stock market is correcting, providing value opportunities in quality dividend stocks like **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP).

The global utility stock has long-life, cash-cow infrastructure assets in utilities, transportation, midstream, and data. It's diversified. It generates quality and sustainable cash flow of which approximately 90% is regulated or contracted and 70% is indexed to inflation. Yes, inflation! So, high inflation speeds up its overall cash flow growth.

BIP's interest expense are predictable and has little impact from rising interest rates in the near to medium term, because about 90% of its debt is fixed rate.

So far, the dividend stock has corrected more than 16% from its peak and provides a more attractive yield of 3.9% for a defensive utility. To be clear, "defensive" is in terms of the strength of the business and the sustainability of its cash flows. Due to the macro environment, the stock will likely trade cheaper over the next months, providing an even better opportunity to accumulate shares in the wonderful business.

Brookfield Infrastructure is a value stock that targets cash distribution growth of 5-9% per year, supported by healthy cash flow growth.

Canadians' takeaway

While we cannot control if we will get a raise from our jobs to combat inflation, we can target to save a percentage of our after-tax income and invest it in solid dividend stocks, like Brookfield Infrastructure, that pay growing cash distributions.

By buying a basket of quality and diversified dividend stocks at great value in this market correction, Canadians can pretty much guarantee growing investment income to fight inflation and the increased cost of living.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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