3 ETFs I’m Holding to Beat High Inflation

Description

Inflation is running hot this year. A week ago, StatCan released the official inflation report for May, which showed a 7.7% increase in the price level. The CPI increase was well ahead of estimates, which called for a 7.3% rise in prices.

In this environment, Canadians are feeling the squeeze. Salaries aren’t going up as fast as prices, and people are having to cut corners to make ends meet.

It’s a tough time, for sure. But there is a way to protect your savings. By investing in diversified index funds, you enjoy a slice of the profits earned by companies raising prices this year. This doesn’t guarantee you’ll get great returns. But it gives you a decent shot at a return that exceeds what you’ll earn in a bank account.

In this article, I will explore three exchange-traded funds (ETFs) I’m buying this year in order to combat the effects of high inflation.

Large-cap TSX stocks

iShares S&P/TSX 60 Index Fund (TSX:XIU) is a Canadian ETF that holds the largest 60 Canadian stocks by market cap. I bought this ETF fairly early in my investing career and never looked back. With 60 stocks, it has plenty of diversification. It also has a low fee (0.16%) and high liquidity. Perhaps more importantly, it has a lot of stocks in it that serve as inflation hedges.

You may have heard that the price of oil is rising this year. That’s true, and oil stocks are among the few categories of equities that are outperforming. Since Canada has a lot of energy companies, you get ample exposure to the sector via XIU. It’s a great fund for investors looking for inflation protection.

American stocks

Vanguard S&P 500 Index Fund (TSX:VFV)(NYSE:VOO) is a fund of U.S. stocks. There is a Canadian version of the fund, VFV, which has a higher fee than the U.S. version but better tax treatment.

The U.S. stock market doesn't have as many direct "high-inflation-winner" plays as the Canadian stock market does. It does, however, have a lot of tech stocks that have been beaten down below fair value. Many top U.S. tech stocks now trade at market prices below the value of their future cash flows in a DCF model, assuming 0% growth. Such stocks have fallen this year, of course, but their high growth and cheap valuations make them worthy picks for the future.

Banks

Last but not least, we have **Vanguard Financials Index Fund** (NYSE:VFH). This is an ETF that invests exclusively in financial stocks. Banks don't directly profit off of high inflation, but they can profit off of interest rate hikes.

When interest rates rise in tandem across the yield curve, banks see their profit margins increase. It isn't as simple as saying that when interest rates go up, bank profits go up: the interest rates need to go up on the long end of the curve as well as the short end. But in the long run, banks are among the few categories of equities that are at least not damaged by high interest rates.

CATEGORY

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1. NYSEMKT:VFH (Vanguard World Fund - Vanguard Financials ETF)
2. NYSEMKT:VOO (Vanguard S&P 500 ETF)
3. TSX:VFV (Vanguard S&P 500 Index ETF)
4. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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