Investing for Inflation: 2 Oversold TSX Stocks to Buy Now

Description

Inflation is a nasty beast that's plagued consumers for around two years now. With central banks ready to raise rates to bring inflation back down to normalized levels, the second half of 2022 may see some sort of relief. In Canada, the 7.7% inflation rate is as unprecedented as it is horrific. It will not be easy to bring it back down without facing some economic pain.

With the S&P 500 in a bear market, and inflation continuing to eat away at your savings, investors may feel like there's no hope. The current environment rhymes with the 1970s and 2000s in many ways. Still, things aren't always as terrible as they seem once everyone is stuck in a rut of pessimism. Investors should continue to buy dividend stocks while prices come down, if not to improve their long-term portfolio's returns to offset inflation.

High inflation could be here to stay: TSX investors should invest accordingly

The days of sub-2% inflation may be many years away. Even if central banks hike at a fast and furious pace, there's a real chance that inflation could settle in a new range much higher than many of us are accustomed to. That's a real risk, and passive-income investors should seek to raise their portfolio's yield with high-quality, dividend-growth plays.

In this piece, we'll check in on two oversold TSX stocks that look more than worthy of scooping up right here, as the Canadian stock market looks to flirt with a bear market.

Quebecor

Quebecor (TSX:QBR.B) is a Canadian telecom underdog you may not be familiar with, unless you live in Quebec and use the popular Vidéotron service. Indeed, Quebecor has stayed (mostly) within one province and has generated solid returns on invested capital over the years. The company isn't a fast-grower by any stretch of the imagination, but it has done a great job of providing top-notch telecom services for its target market.

The firm is a low-growth stalwart with a lofty dividend yield of 4.3%. With the recent acquisition of Freedom Mobile, Quebecor suddenly became much more than a Quebec-based regional telecom. It's gone national, and it could use Freedom's assets as a launch pad for a nationwide expansion. Indeed, Quebecor's growth profile is taking a turn for the better, but as rates rise, it won't be easy to ramp up spending, as the ambitious firm looks to challenge the Big Three triopoly.

Arguably, Quebecor has one of the best management teams in the business. They know the Quebec market very well. If they can replicate their success in other provinces, the sky is the limit.

For now, investors doubt Quebecor's growth path. The stock trades at 12.2 times trailing earnings, making it a bargain as far as Canadian telecoms are concerned. It's down more than 20% from its high and is looking tempting for contrarian income seekers.

Onex

Onex (TSX:ONEX) stock trades at 3.8 times trailing earnings at the time of writing. That's unbelievably cheap. Shares of the investment manager recovered from the 2020 stock market crash but have since seen the rally falter. At $65 and change per share, Onex is flirting with those 2020 lows again.

Though the $5.6 billion firm owns firms that continue to struggle with inflation and COVID headwinds (think WestJet), I am a fan of management's ability to generate excess returns on invested capital over the long run. Onex faced the perfect storm and is now deep in the gutter. I don't think it will take much to propel the severely undervalued stock much higher, even as the economy sinks further.

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