Inflation at 39-Year High: Should You Be Worried?

Description

Canada's most recent CPI inflation report showed a 7.7% increase in the price level — the highest since 1983. With inflation at a 39-year high, many Canadians are starting to get worried. If you drive a lot, you are likely noticing higher prices at the pump. To a lesser extent, you might be seeing higher prices at grocery stores as well.

It's only natural to worry in a situation like this. Most peoples' pensions aren't inflation indexed, and even those who are still working don't necessarily get an inflation bump. It's a tough time to try to make ends meet. Fortunately, there are some investments that are doing well this year, despite all the inflation that's eating peoples' savings.

What's doing well this year

There are two kinds of investments that are doing relatively well this year:

- Energy stocks
- Chinese stocks

Energy stocks like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) are up this year in defiance of the market trend. Chinese stocks are down but much less so than North American stocks.

For Canadian investors, energy stocks would probably be the most interesting of these two asset classes. Most investors have a home field preference, and Chinese stocks are very unfamiliar to most of us. So, if you're looking to ride a trend that is defying the general tendency in the market these days, energy would be the place to look.

Among oil stocks, Cenovus Energy is definitely worth looking at. In its most recent quarter, CVE delivered the following:

- $1.365 billion in cash from operations, up 499%
- $2.6 billion in adjusted funds flow, up 126%

- $1.8 billion in free funds flow, up 209%
- $1.625 billion in net income, up 639%
- $8.4 billion in net debt, down 37%

It was a great showing. Not only did earnings go up, but debt went down, which will pave the way for future earnings growth. Debt creates interest expenses; therefore, the less debt a company has, the higher its future earnings. So, CVE's debt reduction should be bullish over the long term.

Why gold isn't working this time

One asset that usually does well amid inflation is gold. Gold is limited in supply, the theory goes, so the government can't just print it away. In the past, this has resulted in gold performing well in high-inflation environments. For example, the price of gold rose dramatically in the first four years of the 1970s, when inflation was out of control.

This time around, the gold thing isn't really working. Gold is not going down significantly, so it's outperforming stocks. But it's barely moving, and therefore isn't really serving as an "inflation hedge." It is, quite frankly, performing similarly to the dollar.

It's not clear why gold isn't doing so well amid this round of inflation, but cryptocurrency might have something to do with it. A lot of younger investors buy crypto for the same reason that people used to buy gold: to serve as an inflation hedge. This year, crypto is absolutely failing as an inflation hedge, much worse than gold is. However, there are many younger investors who are still into crypto, which may be taking some of the wind out of gold's sales. Should crypto collapse further, gold might catch a bid. For now, I wouldn't hold my breath.

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