U.S. June Inflation Tops 9.1%: What Should Canadian Investors Do?

Description

The U.S. inflation data has bought the worst fears into reality. The U.S. consumer inflation topped 9.1% in June compared to a year ago. The inflation rate accelerated from 8.6% in May. This means another 75-basis-point Fed interest rate hike is likely.

The U.S. June inflation: What does it means to Canadian investors?

Some economists believe this could be the peak of inflation, and the price growth could start easing from here onwards. This expectation comes as oil and gas prices started cooling in mid-June. The WTI crude price has dropped below $100, as consumer demand cooled in the United States and COVID cases increased in China.

The stock market had already priced in the inflation as TSX Composite Index fell 10% in June. Oil stocks corrected 14% in June, and their dip continued in July, as oil prices cooled. Canada was a beneficiary of rising inflation and growing consumer demand. This benefit seems to be cooling as the slowdown in oil demand outweighs tight supply.

What should Canadian investors do to combat inflation?

This 9.1% inflation peak calls for a rebalancing of your investment portfolio before the Fed hikes the interest rate. The stock market could see a strong pullback before a recovery. This is the right time to sell oil stocks and buy these two high-yielding dividend stocks and growth stocks before they recover.

- **SmartCentres REIT** (TSX:SRU.UN)
- **Lightspeed Commerce** (TSX:LSPD)(NYSE:LSPD)

SmartCentres REIT

The REIT dipped 16% from its March high, as inflation started to slow consumer demand and rising interest rates slowed house price growth. The central banks will continue to increase interest rates until inflation starts easing and returns to its target range of 2-3%. If inflation peaked, the weakness in consumer demand might slow. Although consumer demand is still far from recovery, the stock market reacts to future expectations.

SmartCentres's high exposure to retail properties could slow or stop its stock price decline. This is the right time to buy the REIT and lock in a dividend yield of 6.6%. When consumer demand is weak, the REIT will give you monthly distributions. Once consumer demand grows, the REIT could see a significant bounce back of 18-20%.

Lightspeed Commerce

Another stock significantly influenced by consumer demand is Lightspeed Commerce. Its omnichannel platform makes commerce efficient for small- and mid-sized retailers and restaurants. An inflation peak could mean this is the bottom of Lightspeed stock. Any signs of optimism in consumer demand could bring a 20-30% jump in the stock price, as the e-commerce stock has lost more than 80% of its value.

However, this is the stock that can grow with the economy. Retailers and restaurants would need technology to return to business and adjust to the changing consumer trend efficiently. That would drive subscription revenue. While I am not optimistic about the transaction volume, it could gradually pick up in a year or two.

If you are sitting on a 70% loss from Lightspeed, this is the time to buy the stock in small instalments and recoup the losses by cashing out on bouts of growth. For instance, if you invest $200 in Lightspeed now, and the stock jumps 20%, cash out the profit of $40 and let the $200 stay invested. So, your cost of purchase remains low. After every 20% jump, cash out only the profit.

In the first half, the stock reported four instances of growth: 27%, 56%, 70%, and 27%. If you followed the above strategy of profit booking, you would have booked a 20% profit six times, reaching a total profit booking of $240.

There is no guarantee the stock will follow similar growth bumps in the future. But it could see some recovery when the inflation rate begins to ease.

CATEGORY

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3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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pujatayal