8.1% Inflation: How to Tame it With Dividend Stocks

Description

There is an abundance of market bargains this July, as markets attempt to regain their footing following one of the worst first halves to a year in many decades. Instead of fretting over losses that haven't been locked in yet, it may be a better idea to focus on how investors can come out on top over the next five years. Will you wish you had bought more during the 2022 bear market five years from now? Or would you have been content with being too cautious and passing up on the growing number of value plays?

It's hard to tell what your future self expects from you amid this market chaos. However, if you kicked yourself at all for a lack of buying (or selling) during the 2020 stock market crash, odds are, you'll want to have walked away from the current bear market with some merchandise in hand.

Sure, bonds are more bountiful these days, with yields now at the 3% mark. Certain 18-month GICs (Guaranteed Investment Certificates) yield north of 3%. Those are some of the best rates in years! Still, inflation is at 8.1% in Canada. And by settling for a 3% yield on a locked-in investment, you're betting that inflation will be tamed over the next year or so. Otherwise, you'd be surrendering more than 5% in purchasing power!

Fortunately, the Bank of Canada is getting aggressive. Another 100–bps hike could be on the way. As such hikes come flowing in, we'll eventually see inflation peak. I think it will peak in its current 8-8.5% range. Many commodities have come back to Earth, and pesky supply-side constraints are tempering. Not to mention, demand is also starting to cool off in anticipation of a global economic downturn.

Inflation may have peaked, but don't expect a return to 2% anytime soon

Automation may also act as a strong disinflationary force over the next two years, as workforces push to deal with blue-collar labour shortages. Indeed, it's hard to attract talent these days. As wages stay static, inflation may still be tamable, even without front-loaded rate hikes from the central bank.

The Bank of Canada should play it safe, though. By front-loading with 100-bps hikes, the inflation genie may very well retreat to his bottle at a quicker rate. The longer he stays out, the more pain everyone will be in. And given rate hikes are reversible (as opposed to the impact of inflation), front-loading with cuts down the road seems only prudent.

Now, the housing market will be pressured. As too will those with excessive debt loads. Canadians with consumer debt should look to pay it off as soon as possible. Those with extra cash on the sidelines may wish to diversify into dividend-paying stocks to better tame inflation.

Emera stock: An underrated dividend stock to buy on weakness

Currently, **Emera** (TSX:EMA) stock looks like a great bond proxy to help you cope with higher inflation that could persist anywhere from a few months to another year and a half. The bond proxy recently slipped around 9% from its high. Though Emera stock is still beating the market, I view the defensive dividend stock as a great buy, as it fell through no fault of its own.

Emera goes for 26.1 times trailing earnings. That's expensive for a firm that's not exactly a top earnings grower. Still, it has durable cash flows that will be little impacted by a recession. Further, the dividend can grow at a solid rate, even if the markets fluctuate for another 18 months.

Finally, Emera is taking steps to improve its quality of earnings. Greater regulation means less in the way of uncertainty. In an uncertain climate, more certainty (and regulation) is a good thing, even if it comes at the cost of future growth!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/21
Date Created
2022/07/21
Author
joefrenette