2 Inflation-Resistant Stocks to Buy Now

Description

Inflation in Canada is starting to get out of hand, with expectations that CPI numbers could soar above 8% in coming months. Undoubtedly, the argument that Canadian inflation isn't as hot as in the U.S. may no longer be valid, as price increases continue into the second half of 2022.

Though the recent 100-bps hike from the Bank of Canada is encouraging, I don't think investors should expect inflation to "peak" or "rollover" anytime soon. Central banks are likely going to play it by ear moving forward. Although commodity prices have since rolled over, it seems more prudent for central banks to continue with front-loaded rate hikes until CPI numbers actually come down.

In any case, it seems like there's a lot more to lose by letting inflation continue running, rather than looking to drag it lower, even at the cost of economic growth. Currently, pundits see Canada's economy falling into a mild recession. The implications of such a recession on the stock market are less clear. On Tuesday, stocks rallied, with the TSX Index surging nearly 2%. Even if the economic outlook is not bright, the recent earnings results have been pretty good.

The Bank of Canada does its best to fight inflation

Such earnings resilience could allow the Bank of Canada to be more aggressive with rate hikes in its next meeting. In any case, investors should prepare for another year or so of inflation that's well above historical norms.

Many investors have fled to defensive dividend stocks to shelter from high market volatility and elevated levels of inflation. Though the growth-to-value rotation could continue in the second half, investors must be careful about overpaying for defence. By overpaying for defence, one can still set themselves up for lacklustre returns in a bear market.

In this piece, we'll have a look at two undervalued stocks with firms that can more easily pass on higher prices to consumers without suffering from a drastic loss of sales.

MTY Food Group

MTY Food Group (TSX:MTY) is a Canadian fast-casual dining firm that has over 70 brands under its umbrella. Many of the brands are commonplace at the food court of your favourite Canadian shopping mall. Recently, MTY reported a solid result that saw sales recover in a big way. MTY's top brands clocked in double-digit (around 14%) year-over-year sales growth, thanks in part to the broader economic reopening.

As inflation weighs heavily on consumer wallets, many will look to lower-cost options. That means opting for the food court over the fancy dine-in restaurant. Though MTY faces its own higher costs, it's better able to pass on such costs to consumers, given many of its restaurants already offer consumers bang for their buck.

At writing, the stock trades at 14.65 times trailing earnings, with a 1.5% dividend yield. That's too cheap, given the staying power of the resilient restaurant franchisor.

North West Company

North West Company (TSX:NWC) is a retailer and grocer that primarily serves rural communities. The consumer staple sells necessities to underserved parts of the country.

Indeed, there are not many alternative options for consumers unhappy with the prices offered by North West's stores. As inflation picks up, I expect North West to have fewer issues with jacking up prices. While price-sensitive consumers may opt for cheaper alternatives at the local North West-owned store, the firm is unlikely to lose business due to its strong competitive positioning in its target markets.

The stock trades at 11.5 times trailing earnings, with a handsome 4.4% dividend yield.

CATEGORY

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