2 Inflation-Resistant TSX Stocks to Buy Right Now

Description

Though the U.S. inflation numbers came in light (at 8.5% versus 8.7% expected), inflation remains incredibly hot from a historical perspective. Further, it's unclear as to what downward trajectory inflation will take following its likely peak. Indeed, inflation at above 8% is unacceptable for consumers who are feeling as stressed as ever, with soaring prices at the grocery store.

While there are disinflationary forces beyond rate hikes at work (innovation, automation, and inventory gluts that could kick in by autumn), investors shouldn't assume that inflation will just go away. By year's end, it's likely inflation will remain above 6%. That's far better than the 9% peak in the United States, but it's still lofty. Of course, the inflation number could come in longer than expected. But investors should be prepared for above-average (north of 2%) levels of inflation to persist for at least another three years.

Fortunately, you don't need to go heavy on the risk-on trade to dodge and weave past inflation. In fact, there are great value stocks whose dividends alone can help you make it ahead of inflation en route to real returns (returns after inflation).

Consider the following inflation fighters that may be intriguing bets for the long haul.

Enbridge

Up first, we have midstream kingpin **Enbridge** (TSX:ENB)(NYSE:ENB), which boasts a 6.2% dividend yield at writing. The dividend payout isn't as high as inflation, but it could fully offset inflation in a year or so. Add solid annual dividend growth into the equation, and it becomes apparent that Enbridge stock is a far better bet than some of the risk-free securities out there that offer yields of more than 3%.

Historically speaking, bonds are still unrewarding. With a safe payout and underestimated growth prospects (UBS recently upgraded the stock in anticipation of greater growth), the stock seems like a bargain at just 2.2 times price to sales, which is well below the industry average.

Sure, Enbridge isn't a cheap stock amid strength in the energy sector. As oil fluctuates wildly, it's

Enbridge that can help energy bulls ease the choppiness that tends to accompany energy investments.

Loblaw

Loblaw (TSX:L) is a well-run grocer that gets an “A+” grade for moving through recent inflation headwinds. As a grocer, Loblaw sells necessities and food items, two critical staples that consumers can’t really trim away at when it comes time to tighten the budget. Though consumers can opt for cheap private-label merchandise (think No Name brand or President’s Choice) over well-known brand names, it’s clear that consumers are continuing to flock to the local Loblaw-owned store.

Grocery margins are razor-thin, yet Loblaw has found a way to march higher. Gross margins just shy of 32% are just marginally higher than the industry average of around 29.2%. By offering great value while maintaining decent margins, Loblaw is in a sweet spot. That’s a major reason why shares are up 36% over the past year. As inflation and recession continue to weigh, look for Loblaw to increase prices without suffering from substantial sales erosion.

The stock trades at 19.9 times price to earnings, which is slightly above the 17.2 industry average. The premium is warranted, in my opinion, given management’s performance.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:L (Loblaw Companies Limited)

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