



How to Make Money as the Fed Hikes Rates Further

Description

August has been a choppy month, with the Jackson Hole meeting renewing the rate hike fears of investors. Though rates could continue to march higher from here, don't think you cannot make any money as the Fed continues to make good on its promise to crush inflation.

The only thing that makes sense for central banks is to maintain a hawkish stance while staying open to reacting to data. Anything short of such actions could allow inflation to last far longer than it should. For now, rate cuts following the current hike schedule are off the table. However, if inflation data comes in lower than expected, anything is possible.

Remember, the Fed's comments aren't to be taken as gospel. They did predict that the current wave of inflation would be transitory, after all. That left them behind the curve, and a bit of credibility was lost. It'll take quite a bit to regain credibility. With their stubbornly hawkish mindset, I do think they will. At the end of the day, it's far better to err on the side of caution. It's better to be prepared for the worst and be dealt the worst than the other way around!

Sure, markets may be disappointed by the Fed talk these days. But in a few quarters from now, fear and dread could turn to hope and excitement again. It all comes down to the data. Fortunately, we've seen evidence that inflation has peaked and could fall far faster than many of us think. Oil plunged to around US\$85 per barrel, and other commodities have also rolled over. The effects will be felt in the form of lower prices. Add inventory gluts into the equation, and the worst of the inflation beast may already be in the rear-view mirror.

Couche-Tard: Channelling Warren Buffett's investment style

For now, betting big on profitable growth seems prudent. At this juncture, I'm a huge fan of **Alimentation Couche-Tard** ([TSX:ATD](#)) as it looks to buy an elephant that could be valued by as much as US\$15 billion. Couche-Tard is locked, loaded, and ready to make a deal. Though a big deal is long overdue, I don't expect Couche will make a move until it can find one that's shareholder-value-accretive.

At the end of the day, M&A doesn't create value. Smart M&A does. A low price paid and ample synergistic opportunities are how Couche has created value for its [investors](#) over the years. Of late, value just hasn't been there for Couche-Tard. Like Warren Buffett, it sat on its comfortable cash cushion while waiting and searching.

With so much market chaos reflected in the books, far better value creation is being seen across the board. Couche-Tard closed out its final quarter of fiscal 2023 exercising its strong M&A arm to make four new acquisitions, open 42 stores, and divest or close 115 non-strategic assets, ending the period with 9,808 stores. As oil companies divest of assets among the market chaos, Couche-Tard is on the prowl for more convenience store assets. And its balance sheet looks like it can easily absorb them. The convenience store operator is growing cash flows at a higher rate than its industry, with 3-year cash flow growth of 26.8%, and is sitting on \$2.7 billion in cash. The company is also doing better at turning its investments into profits, with a return on assets ratio of 9.6%.

Should things worsen going into year's end, the odds that Couche-Tard will knock one out of the park in M&A is increasing.

Couche-Tard stock is a gem at 18.1 times trailing price-to-earnings at just shy of \$60 per share. It's an inflation fighter, and a huge deal announcement is a potential wildcard that could catapult shares well above \$80.

Slam Couche for a lack of [deal-making](#), if you will. But I do think patience is a virtue for players in the growth-by-acquisition game.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)

PARTNER-FEEDS

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

PP NOTIFY USER

1. cleona
2. joefrenette

Category

1. Investing

Date

2025/09/20

Date Created

2022/09/05

Author

joefrenette

default watermark

default watermark