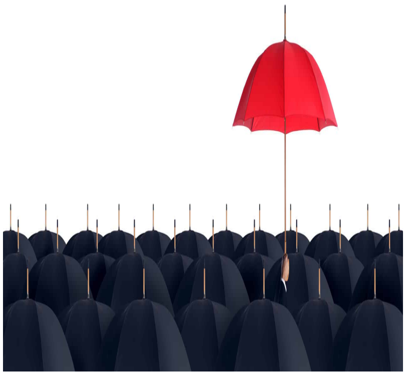

1 Top TSX Stock to Help Your TFSA Survive Hot Inflation

Description

The broader markets took a sharp turn lower on Tuesday following inflation data that came in a bit shy of expectations. Undoubtedly, the meager U.S. CPI numbers (8.3%) caused one of the worst single-day plunges in months. Though inflation still seems to have peaked, the alarmingly persistent nature of elevated inflation remains a considerable concern for many. Bonds also took a dive as rates crept higher, helping deliver the second punch in what was a brutal one-two punch straight to the cut of TFSA investors.

Indeed, the mix of stocks and bonds is facing unprecedented headwinds, as the headwind of higher rates and the wealth-eroding effect of high inflation continue to weigh. Until hot inflation can show signs of cooling off, there's a good chance we'll be in for more of the same going into year's end. As such, investors should remain cautious and dollar-cost average (DCA) on dips, so they're not left skating offside should market momentum turn on a side, leaving investors with their pants down.

Stocks swing wildly as inflation jitters mount

This is not a great time to be a chaser of momentum in any direction. Steep plunges have followed sharp rallies and vice versa. Though it's tempting to think things will turn in your favour after you've exhausted your liquidity reserves, investors must be ready for a broad range of potential outcomes, including a relentless bear market that continues into the new year.

With inflation proving so persistent, Canadian TFSA investors should look for stable (and high) dividend payouts at reasonable multiples. Undoubtedly, high-yield defensive stocks are starting to become a tad expensive. In a market where profitability and cash flow matter more than pie-in-the-sky growth stories, such defensive stocks are more than worth the slightly higher price of admission, in my opinion.

Eventually, inflation will retreat, and rates will cool, accordingly. Investors are upset that it hasn't happened yet. However, it will happen whether it takes another few months of another year of volatility.

In this piece, we'll have a look at **Suncor Energy** (TSX:SU)(NYSE:SU), one of the best energy heavyweights that’s swimming with cash amid inflationary pressures.

Suncor Energy: My top pick for TFSA investors

Suncor Energy is an integrated energy firm that’s still trading at a discount to the batch, even after big commitments to improve upon the safety factor. For investors, the main attraction to Suncor is the depressed valuation and the rock-solid dividend. At writing, shares of SU yield 4.52%. With a modest payout ratio of 23.2% and robust free cash flows, Suncor is in a great spot to increase its payout at a decent rate annually, even in a recession year.

Despite their cheap (and safe) dividends and strong past-year momentum, Canadian investors have still yet to embrace the Steady Eddie oil stocks. Undoubtedly, fossil fuel production is not sexy. And it’s unlikely ever to be, as young investors look to the future of renewable energy.

Still, there’s no denying the cash flows in this higher-rate environment. As rates and inflation continue to soar, one has to think Suncor’s stable free cash flows and solid fundamentals will be appreciated. Heck, Suncor stock may begin to trade at a premium, as the growth trade fades further and quality dividends become scarcer. Fossil fuels aren’t sexy, but sometimes you’ve got to place a bet on what’s out of fashion to do well over the long haul.

At 3.7 times price to cash flow, Suncor is a cash cow that gets no respect.

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