As Canada's Inflation Rate Slows Down to 7%, These 2 Stocks Offer Higher Returns

Description

Canada's official inflation rate for August was 7%. That's lower than the 7.3% economists were expecting and also lower than the 8.1% rate earlier in the summer. Put simply, the inflation wave seems to be ebbing.

However, that doesn't mean things are getting cheaper. Instead, this lower rate implies that the cost of living is rising *slower.* It's still rising at a rate that's more than triple the target rate. Everything from food to rent continues to become more unaffordable.

Meanwhile, investors and savers are losing money. Real estate prices have already started dropping while the **S&P/TSX Composite Index** is down 8.9% year-to-date. Average Canadians are losing purchasing power from both ends.

To escape this vicious cycle, investors need stocks that can reliably deliver above-inflation returns. Here are the top two candidates to consider.

Tourmaline Oil

Much of the current inflation rate is fueled by energy prices. That's why adding energy stocks to your portfolio is the ultimate defense. If energy remains expensive, these companies should see a windfall. If the price declines, these stocks are already undervalued to cushion the blow. It's a win-win.

Tourmaline Oil (TSX:TOU) is a top pick in this category. Despite its name, the company's core business is focused on natural gas. Natural gas has seen more robust prices this year because it's not as easy to transport or substitute as crude oil. Put simply, the shortage isn't going to be resolved quickly which should push Tourmaline stock higher.

Tourmaline is up a whopping 885% over the past two years. Despite that run, it's still trading at just 10 times earnings per share. This implies an earnings yield of 10% – far higher than the rate of inflation. Much of these excess earnings will be paid back to investors in the form of special dividends and buybacks.

Keep an eye on this inflation-resistant stock.

Slate Grocery REIT

Real estate and essential businesses are considered safe havens in inflationary environments. Tangible assets like real estate tend to retain their value and consumers cannot avoid paying for essentials despite price hikes.

Slate Grocery REIT (TSX:SGR.UN) combines the best of both worlds. It's a commercial landlord that owns and manages a portfolio of grocery stores across the U.S. Most of its portfolio is anchored by essential retailers, which means its cash flow is secured.

The stock offers a juicy 8% dividend yield which is higher than the rate of inflation. Meanwhile, each unit is trading at 89% of book value so it has 11% upside on the valuation front too. As rents climb, Slate investors can expect some dividend growth in the year ahead.

For these reasons, Slate Grocery should be on the top of your 'Fight Against Inflation' watch list.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)
2. TSX:TOU (Tourmaline Oil Corp.)

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vraisinghani