3 Stocks to Buy Despite Inflation
Whether we're dealing with transitory inflation as the Fed is promising or this is just the beginning of a longer-term trend in price growth, inflation investing is a big challenge.

But if recent history is any indication, the pain won't last long.

Some modest inflation is expected, and actually good for higher-growth stocks, but it's all a matter of degree.

Too much inflation is obviously bad for spending power and the broader economy, while at the same time too much Fed intervention could but the brakes on this bull market.

While the markets navigate this tricky situation, here are three stocks that should hold up well in an inflationary environment.

Alcoa (AA)

Materials stocks had humongous runs from mid-November (vaccine announcement) to early May before correcting sharply—but in the past couple of weeks, many saw big-volume buying as commodity prices (and these firms' earnings outlooks) remain elevated.

Alcoa is one of the big boys in the sector, of course; its aluminum segment is the main driver these days, with super-strong prices (up 60% from the prior year in Q2!) leading to booming EBITDA for the segment ($743 million in the first half, up from breakeven-ish results the prior two years). And the prospects are getting even brighter, as aluminum prices notched three-plus-year highs last week, partially due to some power-related production shutdowns over in China, which is likely to limit supply even as demand races higher, and partially due to current inflationary trends.

That's the big story right now, though Alcoa's bauxite and alumina segments are also doing good business, with solidly positive EBITDA that easily topped expectations in Q2.

To this point, the firm is using most of its cash to slash debt (including pension obligations, net debt is down a whopping 38% just in the first six months of the year!), but the main attraction here is that the recent earnings spike (Q2 earnings of $1.49 per share was up from a loss a year ago and came in 20 cents above estimates) isn't likely to dissipate anytime soon as analysts race to upgrade their outlook—Wall Street sees around $5 of earnings per share this year (up from an outlook of just $2.55 three months ago!) and the bottom line to remaining close to that level in 2022 (also nearly double the estimates from late April).

Of course, a major change in the global economic outlook could change things, but right now the wind is clearly at Alcoa's back.

DocuSign (DOCU)

The company, of course, was one of the biggest pandemic winners: It has long been known as the hands-down leader in e-signatures (there is competition from the likes of Adobe, but DocuSign is clearly #1), which is an idea that simply makes sense—whether it's signing mortgage refinancing documents, offer letters, work orders, invoices, reviews, contracts or legal documents, e-signatures save ridiculous amounts of time and money (which is more valuable than ever in while inflation pushes input costs higher), not to mention reducing risk (standardized processes and electronic trails).
We had ZoomInfo in our sights back in February, but the market obviously had other ideas, dragging it lower along with most growth stocks.

But the stock is set up nicely ahead of earnings and the story hasn’t changed—in fact, we think it’s improved.

The company has what it dubs the leading go-to-market intelligence platform, using AI and machine learning of publicly available data, along with some information sharing among clients, to provide a much more detailed, accurate, dynamically updated data set for sales professionals that’s extraordinarily broad (monitors tens of millions of domains and record events daily).

Effectively, the platform allows salespeople to do less information gathering and busy work (which currently takes up a majority of their time!) and do more selling, which of course is a good thing when costs are rising and employee time is at a premium; the product is integrated into many of the leading CRM programs, too, so it’s the leading player in this field.

In recent months (mostly through M&A), ZoomInfo has expanded further, and now sees its potential market north of $30 billion—and, in its first-ever Analyst Day in June, the top brass believes it can keep revenues growing at 30%-plus rates at least through 2025.

As for the here and now, growth is faster (up 50% in Q1) and, impressively, earnings are solidly in the black and profit margins are bulky, too, with rapid, reliable growth likely for a long time to come (analysts see earnings up 43% this year and 30% next).

As for the stock, ZI came public 13 months ago and has set up a huge post-IPO base, a pattern similar to what many past winners (Facebook, Alibaba, LinkedIn) have lifted off from.

We're not saying it's necessarily going to be a monster stock, but it has all the characteristics of a name that will keep big investors interested—if earnings please and the market can get out of its own way.
About the Expert

A growth stock and market timing expert, Mike Cintolo is a chief analyst of Cabot Growth Investor and Cabot Top Ten Trader. Since joining Cabot in 1999, Mike has uncovered exceptional growth stocks and helped to create new tools and rules for buying and selling stocks.

Perhaps most notable was his development of the proprietary trend-following market timing system, Cabot Tides, which has helped Cabot place among the top handful of market-timing newsletters numerous times.

Mike’s work has appeared in a wide range of print and online outlets, including Forbes.com, The MoneyShow, Motley Fool, and CNBC.