



3 Canadian Stocks That Will Benefit From a Stronger U.S. Economy

Description

The Canadian and U.S. economies couldn't be more different at this time. While the U.S. economic recovery continues to surge ahead, Canada's economy is finding itself weighed down by the sharp collapse in oil prices and other commodities. This is set to have a marked impact on the performance of many domestically focused companies, but one way investors can mitigate this fallout is by investing in Canadian companies that are well positioned to benefit from the improving economic outlook south of the border.

Here are my three favourite picks that give investors access to the U.S. economy.

Now what?

Canada's only transcontinental railway company **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) gives investors broad exposure to the U.S. economic recovery. It has a rail network that not only spans Canada, but also mid-America and runs all the way to the U.S. Gulf Coast, giving it access to key U.S. bulk freight markets.

As a result, almost a third of its deliveries are made to U.S. markets and this means a large portion of its revenue is denominated in U.S. dollars. In fact, for the first quarter 2015, Canadian National received a nice lift in its earnings for these reasons, with a stronger U.S. dollar boosting its bottom line by 13%. Despite claims that the outlook for the U.S. economy is not as rosy as some analysts believe, what is evident is that Canadian National's exposure to it will remain a growth lever for some time.

The largest insurer in Canada, **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) has built a sizable presence in the U.S. and is now the third-largest U.S. life insurer by assets. This gives it significant exposure to the U.S., and as its economy recovers, demand for wealth management and insurance products can only grow.

For the first quarter 2015, a stronger U.S. dollar gave Manulife's earnings a nice lift, boosting its core earnings by 7.5%.

More importantly for Manulife is that its investments in its suite of U.S. insurance products is paying off.

For the same period it saw a 9% increase in sales, and I expect this to continue as a firmer U.S. economy and higher employment and income increases the demand for insurance.

Canada's second-largest bank by market cap **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) gives investors considerable direct and indirect exposure to the U.S. economy. It is one of the 10 largest U.S. banks and derives around 30% of its earnings south of the border.

You see, a stronger U.S. economy, along with higher employment and rising incomes, will stimulate demand for credit. This will boost Toronto-Dominion's net interest income from its U.S. operations, further growing its bottom line and helping to offset flat growth in Canada.

Furthermore, like Canadian National and Manulife, a stronger U.S. dollar will give its earnings a nice bump, further offsetting any decline in performance in its Canadian banking division.

So what?

A slowing Canadian economy will certainly affect the performance of domestic companies as a weaker economy causes unemployment to rise and incomes to fall. This will cause growth in many industries to flat line, impacting the performance of many domestically focused companies.

However, investors can offset this fallout by investing in quality Canadian companies that have considerable exposure to a resurgent U.S. economy, with Canadian National, Manulife, and Toronto-Dominion offering the best growth prospects.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:MFC (Manulife Financial Corporation)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:MFC (Manulife Financial Corporation)
6. TSX:TD (The Toronto-Dominion Bank)

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