How Trump's Trade Policy May Help or Hinder Your Portfolio

Description

With the inauguration of President Trump now finally over, the world can settle in, somewhat uneasily, for what many are speculating will be a bumpy next few years for trade and the markets.

One of Trump's many targets during his campaign and subsequent election was the issue of trade and, more specifically, NAFTA. The president's desire to renegotiate the more than 20-year-old treaty has caused strain on several different industries that have grown to embrace the integrated supply-chain model connecting Canada and Mexico with the U.S.

With the U.S. now looking to renegotiate that contract, more details are beginning to emerge as to what is being targeted and what is likely to occur.

Canada is not the (primary) target

Speaking after a meeting with cabinet officials and Prime Minister Trudeau, Stephen Schwarzman, who is one of the new president's advisors on trade and who heads the strategic and policy forum, noted that there's no reason that Canada should be "enormously worried."

Schwarzman noted that trade between Canada and the U.S. was already largely balanced and an example of how trade should be. Still, the intent from the Trump administration is to open a renegotiation of the treaty within the next few weeks.

NAFTA is a complicated, massive treaty that, if reopened, could spawn countless other points of discussion that have been muted over the past two decades that the law has been in place.

Coming soon: tariffs and fees?

One of the points that has been raised repeatedly with respect to trade is the possibility of the U.S. imposing tariffs on imported goods at the border, particularly goods made by American companies outside the U.S.

The automotive industry was singled out in this respect, as manufactured vehicles are assembled on

either side of the border and often flow back and forth across the border several times before being completed. This could, if implemented, have a lasting impact on automotive suppliers and distributors such as **Magna International Inc.** (TSX:MG)(NYSE:MGA) and **Uni Select Inc.** (TSX:UNS).

Industry pundits speculate that the integrated supply chain of Canada and the U.S. with respect to the automotive industry would likely be exempt from any such tax, which would significantly increase the cost of vehicles for consumers on both sides of the border.

Another area that has drawn mixed concern is the energy sector. The Keystone XL pipeline from **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) was rejected last year, but it now seems likely to be re-submitted and approved under the new administration, albeit with conditions.

President Trump didn't waste any time in this regard, signing executive orders this week that will see the controversial pipeline finally being built, but it's still subject to a series of approvals and negotiations.

If approved, the project would create thousands of jobs on both sides of the border and result in over 800,000 barrels a day of Alberta bitumen transported into the U.S and to the Gulf refineries in Texas.

As alluring as the prospect sounds, an increase in oil prices to, say, US$80 per barrel could turn the healthy trade status the U.S. has with Canada into a deficit, prompting further action from the new protectionist regime.

One such action that has been mentioned on occasion is imposing a delivery tax that will be paid to the U.S. Another option being considered is for oil to be exempt from being classified as an import, because buying Canadian oil furthers the U.S.'s goal of reducing dependence on Middle Eastern oil.

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