Investors Shouldn’t Panic Over Trump’s Trade Policies Just Yet

Description

Recent statements from President Trump have once again triggered nervousness among global financial markets — in particular, his views on trade and the desire to implement protectionist trade policies. Regardless of how financial markets perceive Trump and the uncertainty that his presidency has created**,** now is not the time for Canadian investors to panic.

Let me explain.

Now what?

One of the greatest fears surrounding Trump’s presidency is his promise to make American manufacturing great again. To achieve this, he will need to establish a range of trade barriers in order to make U.S. manufactured products competitive against cheaper imports, particularly from China and Mexico.

As part of his plan, Trump has proposed tax reforms that would make imports into the U.S. 20% more expensive, thereby boosting the competitiveness of U.S. manufactured goods. This has sparked considerable concern in Canada**;** the U.S. is Canada’s top export destination and the number one importer of Canadian crude.

In fact, these proposed tax changes coupled with Trump’s plans to make the U.S. energy independent by easing regulations governing the conduct of the shale oil industry have raised eyebrows in the energy patch.

There are also fears of a looming trade war with China.

You see, in order for the U.S. manufacturing sector to expand, Trump will need to establish trade barriers, including placing significant tariffs on imported goods from China if U.S. manufactured products are to be domestically competitive. Trump has flagged that these tariffs could be as high as 45%.

Such a high broad-based tariff would certainly spark China’s ire, especially given how reliant it is on exporting manufactured goods to generate economic growth. If tariffs of this magnitude are implemented, they will certainly have wide-ranging ramifications for the global economy.

The impact on China would be significant because the U.S. is China's largest export market; it's responsible for almost a fifth of its exports. Given China's dependence on exports to drive economic growth, any loss of market share would cause commodity prices to fall because China, except for crude, is the world's largest consumer of commodities.

The fallout from a U.S.-China trade war doesn't bode well for miners, such as **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK), which have substantially benefited from the solid rally in metals and coal prices over the last year.

So what?

Nonetheless, there is no reason for investors to panic. There are growing signs that Canada won't lose the special trade relationship it holds with the U.S. Many analysts are also speculating that Trump could very well water down all or part of his trade policy to limit the economic fallout that it could create.

More importantly, investors should remember that markets may fluctuate wildly over the short term, but over the long term, they generally trend higher.

This becomes quite apparent when reviewing the performance of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD)**,** which will benefit from a Trump presidency even if he establishes significant trade barriers. At the height of the global financial crisis, the bank plunged to just under $15 per share, but since then it has more than tripled to now be $50.47 per share.

It is also important for investors to note that Toronto-Dominion will benefit from a Trump presidency. This is because it earns 30% of its net profit from south of the border, and his plans to reduce banking regulations will make it easier and less costly to do business. Then there are the twin effects of a stronger U.S. dollar and higher interest rates because of a stronger U.S. economy, which will give the bank's margins and, ultimately, its bottom line a healthy bump.

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