# Are the Clouds of War Gathering Over Your Portfolio?

## Description

When a U.S. carrier group arrived off the Korean peninsula earlier this week, the Asian stock market went awash in red. The Nikkei hit a five-month low, and the Shanghai Composite dropped almost a full percent.



The week before, President Trump’s missile strike on Syria prompted a precious metals rally with gold leading the way — a traditional haven in times of uncertainty. Oil also turned bullish on the news with prices reaching a one-month high.

Political uncertainty tends to spook investors and send global markets into unexpected gyrations. And the threat of actual military aggression would have significant negative effects on the global financial market. Where does that leave investors today and over the medium term?

### The search for safe havens and currencies

The European Union is in disarray; Brexit led the way, but other countries are eyeing their own exodus from the E.U. Scotland is revisiting independence from the U.K. Russia’s aggressive maneuverings in eastern Europe and the Middle East are ringing alarm bells.

At times like these, foreign investments flow toward safe-haven currencies and precious metals. The U.S. dollar, the Canadian dollar, and the New Zealand dollar should see new investment if the situation overseas escalates.

Additionally, gold, silver, and platinum could reach historically high prices under the clouds of war. This played out on a small scale following Trump’s missile strike. A rally in gold prices could indicate pockets of opportunity for the short and medium term, either in precious metals themselves or related businesses.

### Opportunities for growth in energy and transportation infrastructure

Escalating geopolitical tensions across the Atlantic and in the Asia-Pacific region will put pressure on the global energy market. Although Syria itself isn’t a significant oil producer, its position and alliance with some of the major producers in the region add to fears about the global oil supply. The market's response to the missile strikes bore that out with oil prices gaining 3% in the week following the launch.

Canadian crude and natural gas remain a significant part of the global energy supply; even with recent market fluctuations and turmoil, oil stocks may represent an opportunity for growth over the short and medium term. Midstream service providers, such as **TransCanada Corporation** (TSX:TRP)( NYSE:TRP), that provide pipeline infrastructure also stand to gain, especially those that supply both domestic and U.S. markets. **ShawCor Ltd.** (TSX:SCL), which provides technology products and services for the North American petroleum and pipeline industries, is also positioned to capitalize on an energy rally.

Periods of war also tend to escalate demands for goods, which opens windows of opportunity in the transportation sector. Rail, as the most cost-efficient method of bulk transportation, is uniquely positioned to gain from military conflict. **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI ) is one of the largest North American freight providers with a transcontinental rail network that connects the entire North American market.

**A second look at financial stocks**

Bank stocks are generally considered safe, high-dividend core holdings for investors seeking capital appreciation. In times of global political uncertainty, Canadian financial institutions could benefit from an inflow of foreign investments, again due to the perceived safe haven of Canadian currency and markets. Times of conflict may also drive business borrowing, adding to the appeal of financial stocks.



The Big Five banks had a double-digit year in 2016, but there is still potential upside, especially given the global political climate. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is heavily exposed to the Canadian market and has yields in excess of 4%.

**Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has the largest international division of the major banks with over 14 million international customers; it's well positioned to capitalize on foreign inflows. The stock did very well last year and is poised to outperform in the short and medium term.

**Final thoughts**

Canada's financial markets are already an attractive option for global investors; funds tracking the MSCI Canada indices pulled in more cash last year than any other non-U.S. country. Energy and precious metals, sectors typically impacted in times of geopolitical instability, make up significant chunks of the Canadian economy (about 20% of the Canadian stock market is in energy, and mining and natural resources account for 17% of GDP). These factors taken together offer significant potential opportunities for investors seeking safety and growth in a "clouds of war" portfolio.

**CATEGORY**

1. Bank Stocks
2. Investing

**POST TAG**

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:CNI (Canadian National Railway Company)
4. NYSE:TRP (Tc Energy)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:CM (Canadian Imperial Bank of Commerce)
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1. Editor's Choice

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