



## Should Investors Prepare for an End to NAFTA?

### Description

On August 27, President Donald Trump continued his denunciations of the North American Free Trade Agreement and criticized the delegations of Mexico and Canada for being “very difficult” during the renegotiation process. This followed comments made at a rally in Arizona in which Trump said that NAFTA will likely be terminated “at some point” because the United States had been “badly taken advantage of.” Trade officials from the United States have been more measured and suggest that a withdrawal is not desirable for any side.

The U.S. Secretary of Commerce announced on the evening of August 28 that he would postpone the decision on investigations regarding the anti-dumping duty of softwood lumber from Canada until November 14. Stock for **West Fraser Timber Co. Ltd.** (TSX:WFT) was down 0.37% on the day before the news broke.

Investors are now left wondering if NAFTA could indeed be terminated — a move that experts have assured is highly unlikely. If the unthinkable happens, should investors be greedy or fearful?

### Officials are still skeptical of a full withdrawal

Quebec premier Philippe Couillard was dismissive of the comments from Trump and spoke optimistically when it came to meetings with U.S. governors who were eager to expand free trade between the two countries. Former trade officials and experts from top Canadian universities also expressed the opinion that the rhetoric would not be translated into action.

The share price of Canadian auto manufacturer **Linamar Corporation** ([TSX:LNR](#)) declined 1.6%, and **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) fell 1.95% on August 28. Magna International reported record sales in its second-quarter results in spite of falling production in North America and Europe. There is concern that follow-through from Trump will ramp up U.S. protectionism and damage Canadian manufacturers. Linamar and Magna International, among other Canadian manufacturers, will use the clout as significant employers to pressure representatives in an attempt to block a NAFTA withdrawal.

## Another surprise could be on the way

The barriers to an executive withdrawal from NAFTA are nebulous. Experts have debated whether Section 125 of the Trade Act of 1974, which gives the president authorization to unilaterally withdraw from trade agreements, provides Trump the ability to pull out with the stroke of his pen. Congress enacted the NAFTA provisions with the Implementation Act, which may follow that a withdrawal would require congressional approval.

Trump has demonstrated his willingness to wade into murky legal waters to fulfill campaign promises, as seen with the infamous travel ban which was shot down multiple times before being upheld by the U.S. Supreme Court in June. Economic nationalism laid the foundation for the Trump electoral coup as he swept the Rust Belt states.

Canadian manufacturers will apply as much pressure as possible, but state representatives may have limited power in this dispute. Investors should exercise extreme caution if they have holdings in Canadian auto manufacturers and softwood lumber companies that will be subject to volatility amid these developments.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:WFG (West Fraser Timber Co. Ltd.)

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