Does Rising Protectionism Threaten Canadian Stocks?

Description

On October 18, Canada Housing and Mortgage Corporation (CMHC) released results from internal modelling it conducted to test severe economic scenarios. Some of the scenarios in question included a significant housing correction, further oil price declines, and intensifying protectionism across the globe.

In its protectionist, or "anti-globalization" scenario, CMHC showed housing prices falling by as much as 31.5% and unemployment reaching as high as 15%. Some of the events sparking a rise in levels of protectionism include a break-up of the Eurozone, debt levels in China erupting into crisis levels, and rising interest rates in the United States causing economic shocks.

Home Capital Group Inc. (TSX:HCG) caused grave concern for analysts and policy makers alike during its spring crisis in 2017. Fortunately, due to public and private bail outs, the company was able to survive and prevent further calamity. Its stock has dropped 57.5% in 2017 as of close on October 23.

Beyond external events precipitating a worst-case scenario, there are many factors that could hurt Canada housing in 2018 and beyond. New mortgage regulations introduced from the OSFI could cool a housing market, as uninsured borrowers will now be subject to more stringent stress tests. A record high debt-to-income ratio continues to be an issue worrying policy makers, and recent reports indicate that rising interest rates are already hurting many Canadians.

In the case of Canada housing, it is not protectionism, but a domestic crunch that could result in further corrections. The Bank of Canada finds itself in the unenviable position of "normalizing" rates after almost a decade of record low interest rates put in place following the 2007-2008 Financial Crisis. This is not a problem unique to Canada; central banks all around the developed world are entering a period of uncertainty, as policy makers work to unwind loose monetary policy initially introduced to combat the crisis.

An area where anti-globalization could deal immediate damage is in the oil and gas industry. A lack of cooperation is especially concerning when it comes to the relationship between nations in the Organization of Petroleum Exporting Countries. Members have agreed on a production halt extending into March 2018, but some have levied accusations against others for failing to adhere to production caps.

A breakdown in relations and an end to the production halt could see supplies spike and oil prices plummet rapidly. Shares of **Imperial Oil Ltd.** (TSX:IMO)(NYSE:IMO) have declined 10.8% in 2017 and 5% year over year. The stabilization of oil prices in September and October above the spot $50 range has brought the stock priced at $30.98 as is stands after trading hours on October 23.

Investors in oil gas may also want to consider that a breakdown in relations could have the opposite effect. For example, increasing tensions between the U.S. and Iran could see sanctions against the latter re-imposed if the Iran nuclear deal is dissolved. This could see Iran pushed out of the oil market once again, which would put downward pressure on supplies, albeit likely not enough to have a significant impact.

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