



Betting on a Weaker Canadian Dollar? Consider These 2 Companies

Description

Following a rise in the Canadian dollar to the \$0.83 CAD/USD level in September, investors expecting a reversion toward a longer-term mean have been rewarded of late with the CAD/USD exchange rate moving downward toward the \$0.78 level. Expectations that the Canadian dollar may weaken further following dovish comments made by Bank of Canada officials combined with an increasingly hawkish view by the Fed has resulted in a continued depreciation in the value of the Canadian dollar relative to its largest trading partner in recent months.

For those out there who believe this trend may only just be picking up steam, I've picked three stocks that have been hit hard of late in part due to an appreciating dollar for investors looking for excellent medium- to long-term value.

Algonquin Power & Utilities Corp.

By looking at a stock chart of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) from the beginning of the year, an investor will very easily see a strong correlation between the stock price of this utilities company and the CAD/USD exchange rate. In mid-September, Algonquin Power had lost nearly 10% of its value over a three-month period when the CAD/USD exchange rate hit \$0.83. Since then, the rebound in Algonquin's stock price to new all-time highs has reflected a weakening Canadian dollar as a result of the fact the vast majority of the company's revenues and earnings originate in the U.S. market.

When Algonquin Power's earnings are translated into CAD at a time when USD is worth more compared to CAD, the result will be an earnings number in CAD, which will be artificially higher than before due to the depreciated exchange rate, and vice versa.

Since Algonquin Power is traded on both the TSX and NYSE, an investor looking to hedge much of the exchange rate risk associated with this stock can buy the security on both exchanges in equal amounts. That said, for investors believing the exchange rate environment will continue along its near-term trend, picking up shares of AQN on the TSX may be the way to go.

Gildan Activewear Inc.

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#)) is a Canadian producer of clothing essentials, and it's another company that finds itself in the category of excellent companies to pick if betting on a depreciating Canadian dollar.

Following weaker than expected earnings earlier this month, shares of Gildan dropped substantially (approximately 10% in the days following the company's earnings release), but it has since rebounded to pre-earnings levels due in large part to a weakening Canadian dollar. Similar to Algonquin, the vast majority of Gildan's revenues come from outside Canada, leading to inflated expectations of future performance in times like right now.

A company which has managed to survive and thrive in an apparel world that has seen its fair share of departures in a beaten-up manufacturing sector, Gildan has proven its worth as a company that is able to create value in a changing macroeconomic environment.

Stay Foolish, my friends.

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