



## A New Study Hints at Bad News for These Stocks if NAFTA Is Scrapped

### Description

In an early September article, I'd [discussed](#) whether or not investors should prepare for an end to NAFTA. A recent study released by **Bank of Montreal** explored the possible economic fallout if the North American Free Trade Agreement (NAFTA) is terminated. The analysis comes in the wake of poor progress being made between Canada, the United States, and Mexico in recent renegotiations.

What was viewed as mere bluster from the Trump administration has evolved into very real concerns that a deal is growing more remote with every meeting. Let's take a look at three stocks that could suffer in the immediate aftermath.

**Air Canada** ([TSX:AC](#))(TSX:AC.B) stock has enjoyed a fruitful 2017 — up 78% for the year as of close on November 28. The company reported operating income and revenues in its third-quarter results. However, Air Canada could suffer from the blowback of an end to NAFTA.

The aforementioned BMO report predicted that the Canadian dollar could sink to \$0.74 or lower in such an event. The airline industry is susceptible to economic downturns, and Canadian passengers would see their purchasing power severely hindered after a steep drop. The report estimated a drop in spending from Canadian households of anywhere from \$170 to \$1,000 a year, putting additional strain on a company that is already gearing up for intensifying competition from low-cost regional airliners.

**AutoCanada Inc.** ([TSX:ACQ](#)) has declined 6% in 2017. This drop has occurred in spite of successive positive quarterly earnings and [record vehicle sales in 2017](#). Autos and textiles are one of two sectors that could see prices immediately affected following the termination of NAFTA, according to the study. BMO estimated that the cost of automobiles produced in North America could rise by over \$1,200.

Such a rise would put increasing strain on automobile dealers at the same time that rising rates threaten to eat into sales. The issuance and duration of auto loans has erupted along with auto sales. According to the OECD, Canadians are already burdened with the most individual consumer debt out of all developed nations. A sharp uptick in automobile prices could see companies such as AutoCanada suffer under the new conditions.

**Stelco Holdings Inc.** ([TSX:STLC](#)) made its debut on the TSX on November 3 and has climbed 11%

from its initial public offering price of \$17. CEO Alan Kestenbaum has affirmed the company's commitment to re-establishing its influence in the Ontario automotive industry. Stelco was previously acquired by **United States Steel Corporation** in 2007, which turned out to be horrible timing, as the Financial Crisis hit the steel industry hard.

Now, looking to rebound in an improved global economy, Stelco could again be hit hard by external developments. The integrated North American auto manufacturing sector was named one of the most vulnerable in the BMO study. A protectionist and hostile trade environment could severely hinder Ontario manufacturing and deliver a rough blow to Stelco just as it has come out of the gate.

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## TICKERS GLOBAL

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2. TSX:ACQ (AutoCanada Inc.)

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