



What Would a 2-Way Trade Pact Between the U.S. and Canada Mean for These Stocks?

Description

Prime Minister Trudeau returned home as free-trade talks between China and Canada failed to materialize. The news was unwelcome in light of souring NAFTA negotiations, and there are now murmurs of the possibility of a two-way trade pact between the United States and Canada.

"We're ready for anything, when things come forward," Trudeau said when asked about the possibility of a two-way pact between the two countries. "The new administration has shown willingness to disrupt the patterns of past behaviour and look for new models, and we're willing to entertain next steps forward."

Initially, Canada appeared unwilling to exclude Mexico when it pertained to any trade agreement, not wanting to freeze out another North American ally. However, increased pressure from the U.S. administration has seemingly veered Canadian leadership into a position in which it is willing to pursue realpolitik.

Let's look at three stocks that could be impacted were Canada and the U.S. to explore this new course.

Bombardier

Bombardier, Inc. ([TSX:BBD.B](#)) stock has climbed 47.7% in 2017 as of close on December 8. The company appeared to be in a dire position in late September after the U.S. Department of Commerce slapped 300% duties on the new CSeries jets in response to an appeal from **Boeing Co.** However, Bombardier stock soared after European multinational Airbus SE purchased a majority stake in the project. I discussed the implications of this move in an [October article](#).

Though the move appeared to alleviate pressure, with Airbus vowing to manufacture the jets in Alabama, Boeing has not relented in its appeal. A two-way trade pact between Canada and the U.S. could include provisions to settle this dispute and others like it down the line.

Linamar

Shares of automobile parts manufacturer **Linamar Corporation** ([TSX:LNR](#)) have risen 17.5% in 2017. However, the stock fell after releasing its third quarter results on November 7. Linamar reported net earnings of \$107.3 million compared to \$122.2 million in Q3 2016. The company posted earnings that were up 9.2% year over year before non-recurring items and foreign exchange impacts. Sales were up 6.5% to \$1.55 billion compared to the third quarter of 2016.

The U.S. negotiation team has presented a change that would require 85% North American content in all vehicles — up from the current 62.5%. It would also include a 50% content requirement for vehicles with U.S. content. This proposed change would have left Canada in a dangerous position, but if a two-way deal is on the table, it is likely the U.S. will draft a more lenient proposal, as its trade deficit with Canada is marginal compared to Mexico.

Canfor

Canfor Corporation ([TSX:CFP](#)) is a Vancouver-based forestry company. In November, I'd [covered](#) the final duties imposed by the U.S. Department of Commerce on several Canadian softwood lumber companies. Canfor was hit with a 22% duty. The U.S. International Trade Commission said on December 5 that the duties would likely remain in place over the next five years. A trade pact between the U.S. and Canada could open the door for further negotiations that could see a scaling back of the protectionist measures. For now, however, the softwood lumber dispute appears to be the stickiest of the above disagreements.

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