



NAFTA Deal “In Reach”: Look to These Stocks

Description

In January, an *Axios* report suggested that there had been an internal [“softening” in the Trump administration](#) on the subject of NAFTA. Some of this softening was evident during the Trump visit to the World Economic Forum in Davos, Switzerland, where he appeared eager to appease rather than confront the “globalist” class he rallied against during his campaign. The “populist-nationalist revolution” has resulted in what appears to be an establishment GOP agenda — attempted repeals of the Affordable Care Act, tax cuts, deregulation, and increased military spending.

Robert Lighthizer, the U.S. Trade representative, said recently that the sides were “making real headway.” In reflecting on a deal that Trump, the Republicans, and the Democrats would be happy to walk away with, Lighthizer appeared optimistic. “I think that’s very much in reach,” he said. “It’s something that we can do.”

On February 12, the Trump administration unveiled its infrastructure plan, which had been touted as part of the populist push for some time. Upon review, the plan earmarks a mere \$20 billion annually in federal funds for infrastructure over a 10-year period. The remainder of the plan appears to rely on private-public partnerships and looks for increased contributions from states and municipalities to fund infrastructure improvement.

On the same day the plan was unveiled, Trump took a number of swings at Canada. “Canada does not treat us right in terms of farming and crossing the borders,” he said. “We cannot continue to be taken advantage of by other countries.” Once again, the critique was light on substance and therefore difficult to draw conclusions from.

U.S. Treasury secretary Steven Mnuchin also appeared more optimistic in speaking to the House of Representatives Budget Committee recently. “I’m cautiously hopeful that ... (he) will be renegotiating the deal,” Mnuchin said. “It is a major priority of ours to renegotiate the deal.” Mnuchin also affirmed that a sudden cancellation was very unlikely.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) CEO Don Walker said that “people are more hopeful” in a recent interview regarding NAFTA. Magna is the largest automobile parts manufacturer in

North America, and over 50% of its sales come from the NAFTA region. The company posted record sales in the 2017 third quarter. Ahead of Q4 earnings, which are set to be released on February 22, Magna is an enticing add as NAFTA negotiations take a positive turn.

Linamar Corporation ([TSX:LNR](#)), which is the second-largest automobile parts manufacturer in Canada, may actually have [more to celebrate](#) as NAFTA negotiations improve. The steep demands made by the U.S. side in 2017 included a stipulation for 50% U.S. content, which would have demanded a disastrous reorientation for Linamar, which has less than 30% of its business in the U.S. In the 2017 third quarter, its sales also jumped 6.5% from the prior year.

In spite of the recent bout of good news, at least as far as these companies are concerned, NAFTA negotiations have been slow going and will likely remain so. The Trump administration has expressed interest in extending the deadline for talks, which is currently set for March, which Canada and Mexico both welcome.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)

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