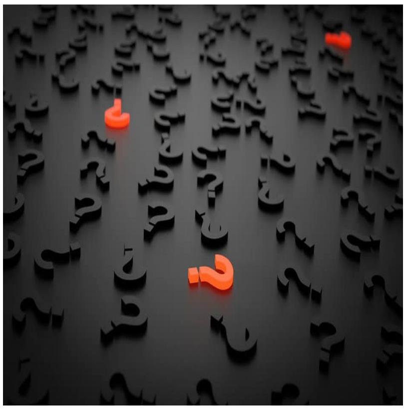

Should Investors Worry About a Potential Trade War With the U.S.?

Description

President Trump's steel and aluminum tariffs are yet another issue to add to an already lengthy list of things for Canadian investors to worry about. With Canada threatening with retaliatory measures, it's clear that we're on the verge of a full-blown trade war, which could end up causing another global recession, according to a statement issued by the head of the World Trade Organization.

The loonie continues to get punished, and for Canadian investors, it seems like there's a never-ending pipeline of problems that will keep the **S&P/TSX Composite Index** at depressed levels over the long haul.

It's not clear what Trump's protectionist policies aim to achieve, as both the U.S. and the "allies" he's slapping tariffs on will stand to lose "bigly" when the dust has a chance to settle, especially after Canada or the European Union fight back with tariffs of their own against the U.S. It definitely won't be an "easy-to-win" trade war with the U.S. if this happens.

Even Trump's chief economic advisor Gary Cohn is against the recently imposed steel and aluminum tariffs. The latest round of protectionist policies may be akin to shooting oneself in the foot, and if that's the case, investors shouldn't rule out the possibility of a bear market following February's "reset" correction. If Gary Cohn ends up running for the White House exits, the markets could be in for an absolute bloodbath as the trade war escalates to the next level.

That's a pretty scary thought. But that didn't stop the **S&P 500** from rallying 1.1% on Monday's trading session in spite of rising rates, inflation, and what appears to be the start of a global trade war.

For a Canadian investor, trade war fears are a tough pill to swallow, but I don't think any drastic portfolio changes are required, unless you're one of the extremely bullish folks who've moved cash out of defensive stocks and into cyclical names over the past year.

It pays to be prepared for the next bear market, and if you've neglected the defensive portion of your portfolio, you've got a golden ticket to get back in with many utility stocks shedding double-digit percentage points over the past few months. Consider high-yield firms with moats built around them, like **Hydro One Ltd.** (TSX:H), which is down ~22% from its high and offers a compelling 4.21%

dividend yield that can dampen the volatility that's likely up ahead. Hydro One basically has a monopoly over transmission lines in Ontario, and the stock is essentially a "bomb shelter" for when the trade war escalates.

Bottom line

A global trade war sounds horrifying. A recession is definitely a possibility, and you've got to be prepared for such a scenario. But that doesn't mean you should sell all your stocks today. Who knows? The steel and aluminum tariffs may just be a diversion to get Canada to settle on a sub-par NAFTA. It looks like it'll be a waiting game with retaliatory tariffs thrown into the mix for now. It sounds like a prisoner's dilemma on steroids!

Keep your defensive positions intact, and make sure you're ready to buy when Mr. Market announces his next sale on high-quality stocks. Recession or no recession, you should always have a backup plan, regardless of how things end up panning out.

Stay hungry. Stay Foolish.

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