



U.S. Floats Canada Exemption on Tariffs: Good News for Stocks?

Description

The White House delivered yet another curve ball on March 7, as Press secretary Sarah Huckabee Sanders said that there were potential “carve outs” for Canada, Mexico, and perhaps other countries with regards to upcoming tariffs. The Trump administration is currently drafting tariffs on steel and aluminum that are expected to be unveiled at some point this week. Canada has made a [strong push](#) to be exempt, and if this news is any indication, it appears to have worked.

U.S. Indexes experienced a shaky March 7 after it was reported that chief economic advisor Gary Cohn planned to resign from his post. Cohn is a former executive at **Goldman Sachs Group Inc.** and was one of the architects of the U.S. Tax Cuts and Jobs Act that was enacted in December 2017. Cohn developed a reputation as one of the staunchest free trade proponents in the Trump administration and reportedly clashed with President Trump over the proposed tariffs before announcing his exit.

The [U.S. political environment](#) has played an increasingly active part in determining the ebbs and flows of not just its own stock market indexes, but the global landscape. The prospect of a trade war has some experts and analysts worried about the prospect of global economic conflagration — the likes of which has not been seen since the pre-WWII period. A breakdown in international trade could lead to the re-emergence of rival blocs.

The emergence of a North American rival bloc to a China-led East Asia or a German-led Europe is enough to strike fear in the hearts of investors.

Russel Metals Inc. ([TSX:RUS](#)) is a Mississauga-based metals distribution and processing company. Its stock has dropped 2.6% in 2018 as of close on March 7. However, the company responded positively to the announcement of the proposed tariffs.

Russel Metals chief financial officer Marion Britton said that tariffs would push steel prices higher, which would be good news going forward. Currently, the company derives about a third of its revenues from the United States. Keep in mind the dividend payout of \$0.38 per share, representing a 5.3% dividend yield, and Russel Metals could be a sneaky pick up before tariffs are announced.

Stelco Holdings Inc. ([TSX:STLC](#)) and **Tree Island Steel Ltd.** ([TSX:TSL](#)) have both experienced volatility over the past two weeks. Stelco rose 3.8% on March 7, as news of the possible exemptions pushed shares up in late afternoon trading. Hamilton, Ontario, which Stelco calls home, lays claim to roughly 40,000 jobs that are directly tied to its steel industry. Tree Island Steel, a Vancouver-based steel company, has seen its stock plummet 16.1% in 2018 thus far.

How should investors play this?

When the tariffs were first announced, an exemption for Canada seemed likely, as the Department of Commerce had left the decision open in late February. The Trump administration has made a habit of proposing a policy perceived as radical, only to walk it back when it is fleshed out. The U.S. appears to be signaling that Canada may indeed find itself within the U.S. orbit when the tariffs are initiated.

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