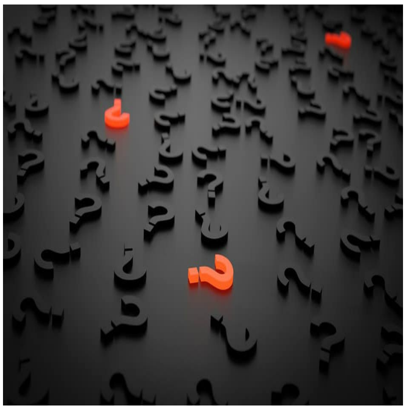

# How Will the Latest NAFTA Developments Impact Your Portfolio?

## Description

The eighth round of NAFTA renegotiations is set to get underway next month in the U.S., and negotiators will enter this round with a new sense of optimism. The U.S. finally dropped the demand for increased U.S. content in automotive components, which would have resulted in higher prices for automotive manufacturers and consumers on both sides of the border.



For companies such as **Magna International Inc.** (TSX:MG)(NYSE:MGA) and **Linamar Corporation** (TSX:LNR), the news couldn't be better. The number one and two automotive suppliers in Canada are reliant on the U.S. market, and the news of the U.S. dropping the increased U.S. content in the automotive sector was met with positive gains for both companies.

One key raw material in the automotive sector is steel, and that was the other recent trade development.

**Steel tariffs — on again, off again**

One thing that is becoming increasingly clear is that nothing is off the table when it comes to trading with Canada's southern neighbour. Steel tariffs were the focus of the administration's trade shift over the past two weeks, with a series of tariffs on steel imports announced for all nations, followed shortly thereafter with an exemption for both Canada and Mexico.

But those exemptions, which were initially indefinite, now come with a time limit of May 1.

Coincidentally, that's also the self-imposed timeline that the U.S. administration wants to nail down a revamped NAFTA agreement, and many trade experts agree that the U.S is tying the two issues together to put leverage on both Canada and Mexico to act as soon as possible.

May 1 itself is not significant, but many think the crossing of that date without a solution will become a year-long delay at least. Presidential elections are set for this summer in Mexico, and this fall marks the midterm elections in the U.S., which could reshape the balance of power in Congress. Anything beyond that one-year timeline, and we approach the gear-up for the U.S. election in 2020.

**Canada is diversifying on trade**

Watching Canada and the U.S. posture around NAFTA is a great lesson in why every investor needs to diversify their portfolios. Over $1 billion worth of materials and products pass over the U.S.-Canada border each day, and the two nations have had a long and prosperous trade relationship.

While that trade relationship may change in the weeks ahead, Canada needs to continue diversifying its trading relationships.

Ironically, on the same day that President Trump signed steel tariffs into place, 11 nations, including Canada, signed a revised Trans-Pacific Partnership, known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The agreement is one of several avenues that Canada and other nations have made over the past year as the U.S. market growing increasingly protectionist.

**What is the likely endgame?**

Despite the nonchalant talk about potentially scrapping NAFTA if a pro-U.S. deal is not reached, the U.S. needs NAFTA. Tearing up the trade agreement would more than likely destroy or severely alter upwards of $1 million jobs in the U.S. with a temporary, yet massive impact on the economy.

As for Magna and Linamar, the status quo will remain in place for now, with both companies continuing to reap the rewards of an integrated supply chain network on both sides of the border. Half of Magna's business and a third of Linamar's business stem from the U.S. market, and both companies remain great investment opportunities.



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