



## Trump Turns the Heat up Ahead of NAFTA Negotiations: Watch These 2 Stocks in April

### Description

In early March, the Canadian government made a [strong and successful push](#) to be exempted from the steel and aluminum tariffs introduced by the Trump administration. Mexico and Australia were also granted exemptions, but thus far European allies have failed in their efforts to lobby the White House. The Canadian government was handed news last week that ended the short period of relief.

U.S. president Donald Trump said that he would seek to impose the tariffs without the exemptions for Canada and Mexico if NAFTA negotiations do not make satisfactory progress by May 1. This apparent negotiating tactic raises the stakes [for the next round of NAFTA meetings](#) that are slated to begin April 8 in Washington, D.C. Since January, there have been discussions among U.S., Canadian, and Mexican officials that appear to indicate that talks have progressed quite well in 2018.

Last week, the administration also dropped its demand for 50% U.S. auto content. The Canadian ambassador to the U.S. David MacNaughton said on March 20 that talks had been the most positive since negotiations began. Canadian Prime Minister Justin Trudeau has also been fairly optimistic on the topic of NAFTA in recent interviews.

**Linamar Corporation** ([TSX:LNR](#)), which is the second-largest automobile parts manufacturer in Canada, has been a key company to watch throughout this process. Shares of Linamar spiked 21% when it released its fourth-quarter and full-year results earlier this month, and sales hit a record \$6.5 billion in 2017. The news of compromise on auto content was good news for Linamar. The company has about a third of its business in the U.S., meaning that it would have faced complications if U.S. demands on auto content came to fruition.

Linamar stock fell 1.92% on March 27. Good news has buoyed the stock price of late, but recent volatility due to rising rates and the fears of global trade tensions has produced downward pressure. A NAFTA deal reached in the spring would go a long way to easing investor minds and providing clarity going forward for the auto industry.

**Stelco Holdings Inc.** ([TSX:STLC](#)) is a Hamilton-based steel company. Stelco stock was pushed to an

all-time high of \$28 following news of Canada's exemption, but it has since fallen steeply. Shares dropped 2.76% on March 27. Stelco also posted strong fourth-quarter and full-year results for 2017. Revenue rose 23% to \$1.6 billion in 2017, and adjusted EBITDA soared 145% to \$216 million.

Canadian steel stocks like Stelco and **Tree Island Steel Ltd.** will be anxiously awaiting the results of talks in April. With that being said, what is the likelihood of a breakthrough at this stage?

At a recent economic forum, chief economist at **Bank of Montreal** Douglas Porter predicted that a "NAFTA-light deal" was the most likely outcome this year. He gave a 50% chance that parties would come to a deal on a "zombie NAFTA" that could be renegotiated as soon as next year.

The upcoming U.S. midterms are fast approaching, and President Trump has been notorious for using the performance of the stock market as a barometre for his own performance. With China-U.S. trade tensions dealing big blows to global markets in recent days, it is likely that Trump and the GOP will be eager for a positive resolution for NAFTA ahead of the elections.

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