Should You Steer Away From These 3 Auto Stocks in June?

Description

As we enter the final week of May, NAFTA talks have reached a stalemate, which has investors antsy. Negotiations had improved in the early spring, and it appeared that we were on track for a possible agreement before the summer. However, a number of sticking points between the three North American nations have prevented a deal from materializing.

Recent reports indicate that Mexico and the United States have clashed over demands from the latter to implement more stringent auto manufacturing rules and over attempts to bring more manufacturing jobs to the U.S. Some have suggested the possibility that the three sides could accept a “skinny NAFTA” deal, which would centre on the dispute over autos and would not require approval from the U.S. Congress. Mexican negotiators have grown cool on this prospect.

Some of the proposals from the U.S. side include a requirement that 75% of auto content originate in North America compared to the current 62.5%. The U.S. has also demanded that 40% of light vehicle and 45% of pickup truck content be produced in zones with wages of at least $16 per hour. Mexican officials countered by proposing a 70% auto content requirement in the region and 20% of vehicle content in high-wage zones.

U.S. trade representative Robert Lighthizer has said that the sides are “nowhere close to a deal,” after expressing optimism earlier this spring. Mexican economy minister Ildefonso Guajardo said on May 25 that there is a “40% chance” of a NAFTA deal being reached before the Mexican presidential election on July 1. He added that there was an 80% chance of a deal being reached before the U.S. midterms, which may hint at the pressure on the Trump administration to close the file before November.

The smart bet seems to be on a deal being struck before the end of the year, but we have already seen how sharply talks have turned in spring. Should investors steer clear of the following stocks? Let’s take a look.

Magna International Inc. (TSX:MG)(NYSE:MGA)

Magna stock has climbed 17.2% in 2018 as of close on May 25, but shares are down 1.5% over the past week. In the first quarter, Magna posted record quarterly sales of $10.79 billion and record cash from operating activities of $577 million. It also declared a quarterly dividend of $0.33 per share, representing a 1.8% dividend yield.

Magna boasts a significant footprint in the U.S., and with some sort of compromise on the horizon between the three countries, it will likely maintain a strong position going forward. However, Magna is hovering around all-time highs as we head into what can be a historically volatile period in the summer. I like the stock long term, but investors looking to buy may want to wait on an entry point in the second half of 2018.

Linamar Corp. (TSX:LNR)

Linamar stock is down 7.9% in 2018 and plunged 3.3% week over week. Linamar boasted a sales increase of $14.4% to $1.9 billion and operating earnings jumped 11.8% to $214.9 million. CEO Linda Hasenfratz called the prospect of auto tariffs imposed on Canada on the basis of national security, recently floated by President Trump, “ludicrous.” Hasenfratz has expressed confidence that U.S. auto content demands will not be met. The deterioration of talks is troubling for Linamar, as it boasts a smaller U.S. footprint relative to Magna, and it could be dealt long-term damage if content requirements are hiked.

AutoCanada Inc. (TSX:ACQ)

AutoCanada stock has dropped by 25.6% in 2018 so far. Auto sales have fallen in March and April, and investors will be eagerly awaiting the May report to see if there is a rebound with the warmer weather. The imposition of tariffs has the potential to push auto prices upward. The Canadian auto industry looks poised to retreat in 2018 without this added factor, so investors should stay away from AutoCanada in 2018.

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3. TSX:LNR (Linamar Corporation)
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Date
2025/09/15

Date Created
2018/05/28
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