



## Should the Threat of a Trade War Prompt You to Sell These 2 Stocks?

### Description

The Trump administration's to move forward on imposing steel and aluminum tariffs on Canada and other key allies has sparked outrage. The move comes in the aftermath of a breakdown in NAFTA talks as the United States, Mexico, and Canada were unable to come to an early agreement. The dispute over auto content continues to be a [sticking point](#).

More concerning is the threat of a prolonged dispute that could negatively impact [global trade](#) in the long term. A statement issued from the G7, which was agreed to by Canada, Germany, the UK, France, Italy, and Japan, condemned the "negative trade actions of the United States" on "national security" grounds. The criticism from Prime Minister Justin Trudeau was especially sharp, called the justification "ridiculous."

Canadian Finance Minister Bill Morneau said "unfortunately the actions of the United States . . . risk undermining the very values that traditionally have bound us together." Trump appeared to give his reply via Twitter, saying the United States "at long last must be treated fairly on trade." The unprecedented division between the members come amidst a trade confrontation between the U.S. and China, which is also in danger of worsening.

The immediate impact from the steel and aluminum tariffs were felt by some top Canadian companies. There is also the threat of tariffs being imposed on the Canadian auto sector.

**Stelco Holdings Inc. ([TSX:STLC](#))** stock has dropped 5.7% over the past week as of close on June 1. The Canadian dollar was also battered on the day the tariffs was announced. Shares of Stelco have climbed 5.8% in 2018 so far, but it has been a hectic year, with trade anxiety putting a cap on its potential. This is unfortunate considering its positive results in 2017 and Q1 of 2018.

Stelco reported revenue of \$482 million in the first quarter, representing a 25% increase from the prior year. Operating income also jumped 58% to \$57 million and adjusted EBITDA rose 9% to \$70 million. The company also announced a quarterly dividend of \$0.10 per share, representing a 0.8% dividend yield.

For those who are confident that the tariffs represent a negotiating tactic to speed up a NAFTA

agreement, this may present an attractive entry point for this stock.

### **Exco Technologies Limited** ([TSX:XTC](#))

Exco Technologies is a Markham-based company that services automotive and industrial markets around the world. It develops dies, moulds, and other consumable equipment. The majority of its revenue comes from the United States. Its stock fell 1.17% on June 1 and shares are down 4% over the past week.

In the week before the steel and aluminum tariffs were announced, President Trump ordered an investigation into auto imports that could potentially lead to tariffs on imports of cars and trucks. This would disproportionately impact Canada, with over 80% of Canadian-made vehicles heading to the U.S.

This small cap is a risk with much uncertainty, but it has delivered over a decade of dividend growth. Both of the above stocks are worth monitoring, but investors should avoid jumping in without further clarity on the future of these new tariffs.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:STLC (Stelco Holdings Inc.)
2. TSX:XTC (Exco Technologies Limited)

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1. Investing

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### **Author**

aocallaghan

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