



Will the U.S.-Canada Trade Spat Drive Down These Stocks?

Description

The G7 meetings in Quebec over the past weekend produced intense fireworks between the governments of the United States and Canada.

Prime Minister Justin Trudeau criticized tariffs placed on Canada on national security grounds in a presser following his meeting with White House officials. He also declared that Canada would go ahead with retaliatory tariffs worth \$12.8 billion that would be imposed on July 1. U.S. president Donald Trump authored a flurry of tweets that accused Trudeau of being “weak” and “dishonest,” while Director of Trade Peter Navarro said any leader deserved a “special place in hell” for attempting to “stab [Trump] in the back.”

The breakdown in talks in the most recent meeting was the worst result since the summits have been held beginning in 1975. President Trump went on to reaffirm his look into potential tariffs on Canadian autos — a move that could cripple an industry that relies heavily on exports to the United States. Trade with the U.S. accounts for 75% of Canadian exports, and an estimated 1.9 million Canadian jobs are directly tied to exports to the U.S.

The S&P/TSX Composite Index shook off the fallout and posted a 60-point increase on June 11. With the potential for [future trade wars](#) heating up, what should the game plan be for investors? Let’s look at three stocks to keep your eye on going forward.

Stelco Holdings Inc. ([TSX:STLC](#))

Stelco stock [rebounded nicely](#) after the tariffs were announced in late May. This was largely due to a land deal the company revealed in early June. The stock is up 14.7% in 2018 as of close on June 11.

Stelco and ArcelorMittal Dofasco, another top steel company in Hamilton, both refused to comment on the tariffs. Representatives from the Canadian Steel Producers Association warned that tariffs implemented for the long term would have a “significant” impact on the industry. Stelco CEO Alana Kestenbaum recently pointed out that 80% of Stelco’s sales are in Canada, but that it relies on the American market for its current growth strategy.

For now, Stelco and other steel producers will be forced to wait and be hopeful that negotiations between the U.S. and Canada lead to an end to steel and aluminum tariffs.

Linamar Corporation ([TSX:LNR](#))

Linamar stock fell 1.03% on June 11, and shares are down 12% in 2018 so far. Its recent earnings miss has exacerbated downward pressure generated from anxiety over the prospect of auto tariffs. In his tweetstorm, President Trump strongly suggested that auto tariffs may be next on the slate.

CEO Linda Hasenfratz stressed in an email Monday that approximately half of engine and transmission components produced by Linamar are shipped to the United States. Hasenfratz has been vocal about her confidence that Canadian officials would not concede to auto content demands from the U.S. NAFTA delegation. "It is a downward spiral that has never resulted in prosperity," Hasenfratz said on the subject of tariffs and protectionism. "I agree trade should be fair; imposing massive cost onto industry and ultimately the consumer is not the way to get there."

The Trump administration has demonstrated that it is ready and willing to back up its tough talk on trade with action. Whether this will yield an economic benefit in the long term is irrelevant. Investors should be prepared for further protectionist measures in this ongoing trade dispute and adjust their portfolios accordingly.

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