Should Potential Auto Tariffs Scare You Aware From These 3 Stocks?

Description

It is looking increasingly likely that the Trump administration will move to impose tariffs on Canadian autos this year, a decision that would intensify the trade dispute between the two allies. Edward Alden, a senior fellow at the Council of Foreign Relations, said there was a "reasonably good chance" that Trump will follow through on the threat that was once again made after the G7 meeting in Quebec.

President Trump would theoretically invoke Section 232 of the 1962 Trade Expansion Act, as he did with steel and aluminum tariffs. Ottawa is reportedly preparing for a "worst-case scenario" and has already laid out options if the White House pulls the trigger on auto tariffs.

The Canadian auto industry accounts for about 130,000 jobs, 90% of which are located in Ontario. In 2017, Canada exported $58 billion worth of automobiles to the United States according to the Peterson Institute for International Economics. The institute also argued that counter-measures from Canada and European allies could inflict even more damage on the U.S. auto sector.

The hope among experts and analysts is that cooler heads will prevail. NAFTA negotiations are ongoing, and it is possible a deal could still be struck before the crucial November midterms in the U.S. As always, investors should prepare for the worst. Let's look at three stocks you may want to steer clear of with trade tensions heating up this summer.

AutoCanada Inc. (TSX:ACQ)

AutoCanada stock has been pummeled in 2018 and is down 26.6% as of close on June 13. Overall, auto sales in Canada have declined year over year for three straight months dating back to March.

This week the company said that it will consider a request from Clearwater Capital Management, a top shareholder, to undergo a strategic review of its options, including a possible sale. Clearwater president Roland Keiper raised concerns about its first-quarter margins and said the company may be a good acquisition target.

This internal struggle is reason enough to stay away from AutoCanada, which is ignoring the broader decline of auto sales and the threat to the industry posed by potential tariffs.

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

Magna International stock has dropped 1.5% over the past week. Shares of the company are up 18.6% in 2018 after reporting record sales in 2017 and continuing that trend in the first quarter of this year. Magna has a significant presence in the United States, but a sports utility vehicle it assembles for Mercedes-Benz would be impacted by the tariff.

The company's strong U.S. footprint is reason enough to be more optimistic, even in the face of possible tariffs, but investors should also consider the impact if broader measures are undertaken. Magna stock reached all-time highs in June, and it may be prudent for investors to take profits or remain on the sidelines this summer.

Linamar Corpration (TSX:LNR)

Linamar stock dropped another 1.78% on June 13 and has plunged 15.9% over the past month. CEO Linda Hasenfratz spoke to the Winnipeg Chamber of Commerce on June 12. To say her comments were ominous would be an understatement.

"If tariffs go on for a protracted period of time, there is no doubt [it will be a recession]," Hasenfratz said to the Winnipeg crowd. "If the cost of steel and aluminum and vehicle and auto parts go up 25%, no company can absorb that cost. It will fall to the consumer. If the consumer stops buying, the market will collapse, the economy will collapse, lots of people will lose jobs."

Hasenfratz has been outspoken during NAFTA negotiations and has urged Canadian leadership to remain firmly against alterations to auto content origins. With NAFTA talks at a gridlock and auto tariffs on the table, Linamar will find itself in an increasingly precarious position.

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