



Are You Prepared for a Trump Trade War-Induced Global Recession?

Description

What a bloodbath!

Global markets took a massive plunge on Monday, as fears over trade wars and rising tensions between the U.S. and the rest of the world begin to mount.

Some Canadians have gone as far as to boycott American-made goods and services, with the hopes that Trump will back down from his “easy-to-win” trade war, which was supposed to “make America great again.”

While many pundits, like Prem Watsa, are outright bullish on the Trump administration’s stimulatory effect on the U.S. economy, which will, in turn, strengthen the global economy, there are still many risks that investors face when they buy into just the bull side of a story.

Trump has kept many promises, including the controversial ones that were deemed far-fetched by the general public. And while many may believe that Trump is pulling off a huge bluff on the world with tariffs and aggressive negotiation tactics, I think his intention is for the U.S. to undergo short-term pain for longer-term gain at the expense of America’s trading partners, who Trump believes will fold first as the tit-for-tat battle may begin to cross each trading partners’ threshold of pain.

In such a prisoner’s dilemma, however, it’s also possible that both sides will stand pat, and that’s the major risk that investors are afraid of.

Was tax reform really a means to stimulate the global economy?

The Trump administration’s recent tax reform was seen as a huge booster for U.S. businesses, which stood to give the global economy a major boost, but as it turns out, the corporate tax cut may have been simply a means to offset the pressures that come with a trade war that’s been led by Trump. As such, given these cuts, Trump may see America’s threshold of pain as substantially higher than that of its partners in the event of a severely escalating trade war.

Many of America’s trading partners, Canada included, are becoming less competitive when it comes to

corporate tax rates after U.S. tax reform. And with a tit-for-tat trade war thrown into the mix, there's no question that companies domiciled within countries in America's cross-hairs will be feeling a lot more pain without the pressure break-fall of suddenly lower corporate taxes.

While the low loonie and enhanced relations with other international trading partners may serve as a partial offsetter of trade war-induced pressures, one thing that's apparent is that Trump believes he has an exorbitant amount of leverage to pull off an unfair deal which he deems is "fair." American firms will still be pressured a great deal in a trade war, and if things get uglier, we may be on the verge of a very deep global recession from which there will be no winners.

What should Canadian investors do?

We could be on the verge of an imminent trade war-induced recession. Or Trump may unexpectedly back away from his incredibly aggressive negotiation tactics, and the bull may continue to roar.

Given Trump's unpredictable nature, I'd encourage investors not to play just the bull side of the coin by investing in stocks solely because of positive U.S. fiscal policies.

Sure, lower corporate taxes are a given, and they'll give the global economy a jolt; however, these lower rates may just offset pain for U.S. firms, as the negative implications mount from an escalating trade war, which may ultimately end up overpowering the positive effects from tax reform.

With this in mind, Canadian investors shouldn't panic and sell all their stocks.

Instead, they should steer clear of cyclical names, like auto parts manufacturer **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), and jump back into out-of-favour [defensive dividend stocks](#), like **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)), which will dampen really ugly trading days, like the one we had on Monday, and hold its own should the trade war escalate to the next level.

Now would be a great time to have an [all-weather portfolio](#), because we're really at a crossroads depending on the decisions of one man.

Stay hungry. Stay Foolish.

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