Should You Buy Canadian Gold Stocks Ahead of Brexit?

Description

Despite calls from some quarters in the U.K. for a second referendum, Brexit is still happening. As of March 29, 2019, the U.K. will no longer be part of the European Union. Though the implementation of Brexit will no doubt send waves through global markets, there may be upcoming opportunities for investors in the Canadian stock market.

Short term, Britain's trade with Canada might contract, but as our second-biggest trading partner, investors can expect to see exports to the U.K. rally. Here are a few factors that will affect Canadian trade with a post-Brexit U.K., as well as a few of the Brexit-sensitive stocks on the TSX most likely to remain stable following Britain's split with the E.U.

Brexit, NAFTA, CETA — when did the alphabet start looking so scary?

The Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union is Canada's biggest foreign trade agreement since NAFTA. If you haven't heard of it, it might be because it hasn't been ratified yet, although large parts of it have been in operation since September 2017. Until Brexit happens, CETA covers most aspects of trade between the U.K. and Canada. However, there may never be fully CETA-covered trade between the two countries if that agreement isn't ratified before March 2019.

After Brexit, trade between Canada and the U.K. will operate outside of CETA. The rules of Canadian post-Brexit trade with the U.K. may or may not be affected by whether a soft or hard Brexit is implemented, since the nature of the U.K.'s trade with the E.U. (and, indeed, with other international markets) may have to be taken into account. Therefore, it makes sense to start looking ahead of time at how Canada and the U.K. will trade one on one.

What will Brexit mean for Canadian investors?

Gold, gold, and more gold.

While it just so happens to be the most directly Brexit-connected Canadian export, the irony is that gold is where many investors looking for stability would have gone anyway. The downside is that post-

Brexit, Britain's ability to buy that gold might shrink in the short term. The upshot is that you should probably buy gold stocks anyway.

Go for the most stable stocks whether or not you're an optimist looking to invest in strengthened Canadian-U.K. trade. In 2016, gold exports to the U.K. were worth over $11 billion to Canada, while nickel products were worth $780 million. Stick with gold, as it's the biggest of the two commodities by a country mile and already a go-to in times of economic stress.

The gold stocks to buy up should be big and sturdy. Think **Osisko Gold Royalties Ltd.** (TSX:OR)(NYSE:OR), **Goldcorp Inc.** (TSX:G)(NYSE:GG), or **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), all of which are rich and rooted enough to weather a storm.

The bottom line

Canada and the U.K. could find themselves in a similar position during the next 12-month period. With NAFTA looking shaky and CETA still up in the air, Canada could be in need of rock-solid trade agreements in the new world economy. Likewise, a post-Brexit U.K. will need all the help it can get from trade partners. Expect to see both countries ramp up trade with Australia, China, and India.

It makes sense, then, that you could see strong trade agreements being drawn up between Canada and the U.K. TSX investors looking for opportunities should do their due diligence and look into the strongest current Canadian-U.K. trade sectors as indicators of outlook and stability.

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