Investors: Don’t Get Caught Holding This Stock in a Full-On Trade War

Description

The first wave of casualties from Trump’s trade war is on the books.

A manufacturing company based out of Sault Ste. Marie, Ontario recently announced its intent to lay off workers in response to U.S. tariffs placed upon Canadian steel and aluminum.

With Canadian retaliatory tariffs now in place, the next chapter of this trade war has the potential to get really ugly. Unless the Trump administration backs down (let’s not place bets on this), more layoffs could be in on the horizon in the months ahead as the pains endured by Canadian firms directly affected by the trade war begins to grow.

Unless you’re overexposed to manufacturing firms that stand to be directly impacted by Trump’s tariffs, most Canadian investors probably don’t need to make any drastic changes to their portfolios. If you’re adequately diversified, odds are that Trump’s tariffs won’t hit your portfolio too hard, at least not until the next round of tariffs are announced.

Of course, systematic trade war-related events could send shockwaves through the entire market, but for the most part, I think a broader pullback in the TSX should serve as an opportunity to back up the truck on battered positions that stand to be minimally affected by a trade war.

In any case, if you are overweight in Canadian auto part manufacturers like **Magna International Inc.** (TSX:MG)(NYSE:MGA) I’d strongly urge investors to reconsider their original theses to determine whether the added risks are worth the potential rewards.

When it comes to Magna, I guess you could call me a “permabear.”

I’m not a fan of the auto part manufacturing business whatsoever, and I’ve made this quite clear in my previous pieces. Over the long-term, I believe the number of cars on the road will be reduced substantially once summonable autonomous vehicles (AVs) become the norm. Sure, it may sound far-fetched, but in a decade from now, the demand for auto (and their parts) and going to fall off a cliff when a vast majority of the general public would rather take a pass on car ownership.

That's over the extremely long-term, however.

Over the nearer-term, Trump's tariffs are going to rub salt in the wounds of international suppliers like Magna, which relies on Detroit-based car companies for a majority of its sales. Moreover, given the cyclical nature of the name, the negative implications of a trade war and a potential recession could send the stock crashing – hard.

During the Great Recession, Magna stock plunged over 70%. That's probably well below your average investors' threshold of pain. And if steel and aluminum tariffs are hiked further (don't doubt it when it comes to Trump), Magna could easily lose half of its value over a short period of time.

When it comes to Magna, I think it's a lose-lose situation. An escalating trade war or a recession could send this cyclical name into the abyss a lot faster than you'd think. Even if Trump were to back off from all tariffs, Magna still isn't a business that I'd recommend for long-term investors. It's too capital-intensive, there's no moat, and the longer-term outlook is very bleak in my opinion.

Moving forward, I suspect Trump could take the trade war to the next level. If that happens, Magna could get crushed due to its high reliance on cross-border trade. As such, I think Magna is a compelling short sell for investors looking to hedge themselves from a trade war-induced correction.

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