Is the Rate Hike Bad News for These 3 Stocks?

Description

The Bank of Canada elected to raise the benchmark rate to 1.5% on July 11 — a move that was expected by odds makers and analysts alike. The Canadian dollar predictably rose after the decision was announced, but this was short lived. The United States announced another round of crippling tariffs on China — this time totaling $200 billion — that will likely be officially imposed by the end of the summer. To add to this, President Trump struck an antagonistic tone at the NATO meetings.

Renewed trade tensions and calls for further protectionism pushed up the U.S. dollar, which, in turn, dragged down the Canadian dollar. Governor Stephen Poloz said that there would likely be one more rate hike in 2018, but he also urged caution due to this recent bout of protectionism. Experts forecast that the central bank will leave rates unchanged until a key October meeting.

The rate hike may not have been welcomed initially by the companies we will go over today, but continued weakness in the Canadian dollar is not necessarily bad news. Let's take a look at three stocks investors may want to add after the rate hike today.

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP)

CP Rail stock was up 1% as of early morning trading on July 12. Shares have climbed 5% in 2018 so far. The company is set to release its second-quarter results on July 18. In the first quarter, revenue rose 4% to $1.66 billion, and the operating ratio rose 510 basis points to 67.5%.

For its 2018 full-year guidance, CP Rail projected the Canadian-U.S. dollar exchange rate to be in the range of $1.25-1.30, while also forecasting an effective tax rate between 24% and 25%. CP Rail and other rail and freight companies have experienced complications with the high Canadian dollar in 2017. Trade tensions are hardly good news, but a higher U.S. dollar should alleviate some pressure going forward.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

Canadian National Railway stock was up 0.96% in morning trading on July 12. Shares are up 7% in 2018 so far. The company is set to release its second-quarter results on July 24.

In the first quarter, Canadian National Railway saw net income drop 16% year over year to $741 million, while diluted earnings per share fell 14% to $1.00. Canadian National Railway sees a large portion of its revenues and expenses denominated in U.S. dollars. The fluctuation of the Canadian dollar was a drag on earnings, and the company said net income would have been $24 million higher, or $0.03 per share, without this issue.

Stella-Jones Inc. (TSX:SJ)

Stella-Jones sells lumber and wood products with a bulk of its customers for utility poles located in the United States. A weak Canadian dollar has historically been a positive for the company. Shares dipped on July 11, and the stock was up a slight 0.19% in morning trading on July 12. The stock is down 5.9% in 2018, but shares are up 8.6% year over year.

All three stocks should benefit from a dovish turn from the Bank of Canada, and trade tensions were able to mitigate the gains the Canadian dollar experienced in the immediate aftermath.

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Date
2025/08/14
Date Created
2018/07/12
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