



What Would a Hard Brexit Mean for Canadian Stocks?

Description

If you've been following the news from across the pond, you'll be aware that the U.S. is angling for a hard Brexit. But why? First of all, any U.S./U.K. deal following a *soft* Brexit would be tantamount to the U.S. dealing with the E.U. On the flip-side, a *hard* Brexit would allow the U.K. to seek more lucrative deals with non-E.U. partners, including the U.S.

But what exactly is a hard Brexit, and what could it mean for [Canadian investors](#)?

A hard Brexit means a clean break from the E.U.

While Eurosceptics argue for a total 180 degree turn on E.U. involvement with British trade, there are those on both sides of the Atlantic who would favour a soft Brexit that keeps most of the old U.K./E.U. arrangements intact, with everything from trade agreements to cross-border movement of European citizens staying the way they are.

However, what the U.S. seems to be angling for is an all-new trade agreement with the U.K., which would benefit the economies of both nations. Whether this is part of a long game designed to weaken the influence of the E.U., or whether it's a genuine move towards greater economic ties between the U.S. and the U.K. may be somewhat of a moot question, since the fiscal gains should be the same whatever the motive.

A deepened and strengthened special relationship would benefit all involved, with greater cooperation on many issues such as NATO, G7 agreements, and more. What's on offer at the moment is a zero-tariff trade deal, which seems likely to go ahead only if a hard Brexit can be drawn up and enacted.

Which Canadian sectors might benefit from a hard Brexit?

Our biggest exports to the U.K. are currently gold and nickel in that order of magnitude. Meanwhile, our biggest imports are in the auto and aviation sectors. Expect to see domestic gold stocks rally if the U.K. goes for a hard Brexit.

Consider stocks such as **Alacer Gold Corp.** (TSX:ASR), which is currently undervalued, like a lot of

mining stocks on the TSX are at present. It's boasting low multiples and is a sturdy competitor for your [Canadian gold stock](#) portfolio.

British imports could also be cheaper if a hard Brexit is implemented. Look at any industry that currently makes use of British vehicles and vehicle parts, and dig around to see how these stocks might be buoyed by new trade deals. Pay special attention to any Canadian incentives to head off potential U.S. auto tariffs, and see how these mitigating initiatives might make use of low, or even zero, tariff trade with a surging British economy.

The bottom line

What's good for the goose is good for the gander: while a hard Brexit would benefit the American economy, it would also benefit the Canadian economy, and for the same reasons. In short, a decisive split with Europe would leave Britain arguably better able to command more lucrative trade deals with the rest of the world: with BRICS, with the U.S., and with Canada.

There's also another, more far-reaching argument for a hard Brexit: while Europe may not want to hear it at the moment, a strong British economy has the potential to head off, or perhaps lessen, a North American downturn in fortunes. So, keep an eye on the headlines from Britain, because the next few months could be pivotal for global fortunes.

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