Japan-E.U.: What Does the World's Largest Free Trade Deal Mean for Canadian Stocks?

Description

Last week's biggest economic news had to be the deeply significant trade deal struck between Japan and the European Union (E.U.). In case you missed it, two of the world's biggest economies shook hands on a nearly zero-tariff deal that will affect over a quarter of the entire global economy.

While the intention of the new trade agreement is primarily to remove trade barriers between the two signatories, it has also been designed to reshape the world's trade rules to reflect European and Japanese standards and common values and to signal a definitive rejection of protectionism.

Can the TSX prosper from the Japan-E.U. deal?

A bolstered Japanese economy might be good for Canadian investors, if they can find stocks that give them exposure. **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) was on the verge of a major uranium deal with Japan when the Fukushima disaster struck in 2011. Until then, Cameco had been an exemplary domestic stock to play the Japanese market. Canadian investors wanting to make good on the new Japan-E.U. trade agreement should look to stocks that are similar to Cameco pre-Fukushima.

Then there are EFTs. Consider the Canadian dollar-hedged **iShares Japan Fundamental Index** (TSX:CJP) for exposure to a streamlined range of major Japanese companies. It's currently offering a 1.55% trailing yield and has low multiples: a P/E of 10.98 times earnings and a P/B of 1.08 times book.

Are there any indirect benefits to the TSX?

There's always China. That other Asian powerhouse recently sidled up to the E.U., looking to make friends, but it was turned away. While this state of affairs may be reversed in coming months, the implication in the meantime may be that China could be looking for partners – and Canada, currently in NAFTA limbo, may well end up seeking company itself.

Canada's next trick should be to present itself as an enviable economic partner. Looking at China's current *modus operandi*, it would appear that increased trade with Africa is high on the agenda. This will be a continental extension of the trade that China already does with South Africa as a fellow member of the BRICS economic bloc, which also includes Brazil, Russia, and India.

In other words, there is a world outside of NAFTA, as Canada found when it signed its own free trade deal with the E.U., CETA, in 2016. Speaking of which, since the E.U. is set to prosper from free Japanese trade, Canada could see its own economy benefit indirectly via CETA.

The bottom line

A surging Japan could hold hidden benefits for Canadian investors, while knock-on changes in global trade might create opportunities through partnerships with unlikely allies. Investing in Canadian companies with international ties is one option, while getting into international EFTs is another.

Maybe the most pertinent message from Japan comes from *before* the E.U. trade deal was announced, however: defensive stocks on the Nikkei have been outperforming recently, which has long been held a harbinger of coming economic stress. Looking at the TSX, it’s possible to see a similar trend domestically. Perhaps investors should take note and trade accordingly.

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