



3 Huge Challenges to Canadian Stocks and 1 Unlikely Contrarian Play

Description

While the prospect of a stalled TSX is both impossible to call and subject to too many complex factors to cover in one article, here are three challenges to the Canadian stock market that investors may have missed, plus one contrarian play you might not expect.

Compounded fear caused by market uncertainty

Consider an overheated economy typified by over-spending, overvalued stocks, fear in the market, an over-reliance on credit and a lack of concern about debt, a stressed agricultural industry, rising interest rates, and a media cynical of the global economy.

If these factors sound familiar, then you know your history. They were all facets of the U.S. economy in the late 1920s that led to the Great Depression. They're also fairly typical of most Western economies today. Unfortunately, even talking about it is part of the problem.

A weakened Asia

The word on the street is that China's economy is booming. Don't get too excited about this burgeoning economy just yet, though. The signs coming from the Asian economic powerhouse seem to be that its financial foundations are perhaps not as sturdy as we've been led to believe. A faltering [Japanese economy](#) would make for further financial destabilization in the region.

A trade war with China may indeed hurt the West, but it's calculated to impact Asian markets to a greater extent. Some analysts are suggesting that recent tariffs are already constricting an oversold economy, while further punitive measures could sink it completely. While some Sino-Canadian deals seem solid, such as domestic agreements with the emerging electric car market, investors may want to think twice before putting too much faith in the Asian Century.

A messy no-deal Brexit

While a [hard Brexit](#) might make for a trade-hungry U.K., a no-deal Brexit might roil global markets and cause mass sell-offs.

According to the most up-to-date data from the Canadian Library of Parliament, Canada's most lucrative exports to the U.K. are currently gold and nickel products, while our biggest imports from them in terms of value are motor vehicles and aircraft. Those, therefore, are the sectors that investors should focus on when scrutinizing stocks on the TSX most likely to be directly affected by a no-deal Brexit.

For Canadian stocks likely to be negatively impacted by decreases in U.K. vehicle imports, look at any directly related Canadian services or parts suppliers. You'll have to do your homework here, but look at TSX stocks that rely on, utilize, or benefit from imported British motor vehicles and aircraft and consider scaling back. Gold stocks might also take a hit, especially if prices in the yellow stuff continue to drop.

How could Canada capitalize on a shifting global economy?

An ultra-contrarian one-size-fits-all investment strategy might involve the auto industry. Not only in China — with its electric vehicle (EV) market set to do great things — but also here in Canada; via threats of additional U.S. tariffs, the auto industry is about to change gear. What's not obvious is how. But it's clear that this is a huge industry about to undergo a profound reshuffle.

Look to stocks such as **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) that are leading the way for strengthened Canadian trade with China. This stock in particular looks like a better play with every week that passes, so investors seeking exposure to the global EV market should take note. Under pressure from the U.S., Canadian and Chinese auto companies may seek to strengthen this bond in the face of financial adversity.

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