



NAFTA: Could an August Deal Help Spark Bank Stocks?

Description

NAFTA negotiations appeared to be progressing well at the beginning of 2018. All three countries had a vested interest in coming to a swift agreement, as Mexico was facing a summer election in 2018 and the White House has the November midterms to look forward to. Talks ramped up in the spring, but unfortunately broke down in May, as the three nations were unable to overcome the hurdle of auto content requirements. [Additional disagreements](#) also hurt a potential deal.

The prospect of progress in the summer seemed dim, particularly for Canada, the target of invective from President Trump and some of his orbiters after a contentious G7 summit in June. After the announcement that Canada would be left out of a NAFTA meeting between the U.S. and Mexico last week, deeper concerns emerged.

There is now considerable optimism coming out of those meetings. Mexican and Canadian officials have expressed a desire to get a deal done by the end of this month. The Trump administration has also been positive, and would also have a strong incentive to complete a deal ahead of the November midterms.

Canada is set to rejoin discussions in mid-August. If a deal can be reached, at least in principle, the positive news would undoubtedly reverberate through North American stock markets. An August deal would also perfectly coincide with the next round of [Canadian bank earnings](#).

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) stock has climbed 5.4% over the past three months as of morning trading on August 7. Shares are up nearly 20% year over year. After releasing its third-quarter earnings last August, TD Bank enjoyed a prolonged surge in value along with many of its peers. TD Bank earnings have been strong in 2018 so far, powered by improved margins and by the windfall from U.S. tax reform.

Royal Bank of Canada ([TSX:TD](#))([NYSE:RY](#)) stock has increased 3.6% over the past three months. Shares are down 1.2% in 2018 so far. In September 2017, Royal Bank stock began a run that launched the stock from around the \$90 mark to an all-time high of \$108.52 in January 2018. Royal Bank earnings have also been solid on the back of higher margins and good growth in its mortgage

book in spite of general pressure on Canada housing.

A solid earnings release combined with the news of a NAFTA deal could spark a similar run that investors enjoyed in the prior year. This run saw many top bank stocks hit all-time highs before the New Year. Naturally, it is good policy to maintain a healthy skepticism surrounding the recent “breakthrough.” The three sides have hinted at the possibility of an imminent deal in the past, only to have talks to collapse on the same points that have prevented an agreement in the past.

Investors should watch the next round of negotiations closely. All three governments will be eager to come to a deal – the newly elected government in Mexico, the Trump administration ahead of the U.S. midterms, and the Canadian liberal government that will be subject to a federal election next fall.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/08/17

Date Created

2018/08/10

Author

aocallaghan

default watermark

default watermark