What Are the Best Stocks to Buy for China Exposure in a Trade War?

Description

Another news cycle, another round of tariffs from the U.S. This time it's $16 billion on Chinese goods in the latest salvo of the Sino-American trade war. Retaliation from Beijing has been swift, with equal amounts of U.S. goods taking returning fire, even as talks get underway to halt the escalating situation.

Almost $17 million of the new tariffs are on electrical machinery, with the remainder of the hardest hit sectors likewise being equipment based. What does the ongoing trade war mean for Canadian investors, and should you be looking at your portfolio to reduce exposure to China, or even to the U.S.? Let's take a look.

Should investors in China start playing swapsies?

Stocks that are directly tied to Chinese auto-impacted sectors may be worth limiting, while anything consumer-weighted may also be a liability. Canadian investors holding Chinese assets in their portfolios may wish to limit these kinds of stocks, or swap them out with more defensive positions.

Consider the following example:

At $178, **Alibaba** (NYSE:BABA) is overvalued by about $40 a share compared to its future cash flow value. Its market fundamentals look fundamentally bad today, with a very high P/E of 48.5 times earnings, PEG of 2.2 times growth, and discouraging P/B of 8.5 times book. A 22.1% expected annual growth in earnings sounds accurate, though, making this one to keep hold of if you like your growth stocks. However, Alibaba is really not much of a momentum stock, unlike the FAANG stocks it resembles in terms of value. All told, Alibaba looks like one to sell at the moment.

Investors who still want to keep their exposure to China may want to swap out consumer cyclicals for defensive stocks such as Chinese utilities. A good candidate might be the NYSE-trading **PetroChina** (NYSE:PTR). It carries a low level of debt and pays a current dividend yield of 2.51%.

Discounted by 46% compared to its future cash flow value, PetroChina's market fundamentals are a bit of a mixed bag, with a P/E of 33.3 times earnings and PEG of 4.2 times growth undercut by a reassuring P/B ratio of 0.7 times book. PetroChina is looking at a 7.9% expected annual growth in earnings, which is reasonable for a utility in a BRICS nation coming under economic fire.

Another $200 billion of tariffs on Chinese goods may also be on the horizon, along with a 25% tariff on all U.S. auto imports (which is another story altogether). As these tariffs will potentially be met with equally valued counterstrikes, Canadian investors may want to start paring down their exposure to both Chinese and American markets, with remaining investments in either market being strongly defensive.

The bottom line

Keep an eye on the growing lists of tit-for-tat tariff targets on both sides of the Sino-American trade war and limit your exposure to both sides where you can, as industries in both nations are affected. Canadians holding stock in auto companies that export to the U.S. may wish to scale back ahead of a potential 25% tariff on that sector, though contrarians should keep an eye out for bargains in strong industry players likely to go the distance.

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