



Progress on Trade Could Be Great News for These 2 Stocks in the Last Months of 2018

Description

Early this month I'd [discussed the potential of a deal being reached](#) on NAFTA before September. NAFTA negotiations had [entered into a rough patch](#) after talks appeared to fall apart in May and the Trump administration imposed steel and aluminum tariffs on Mexico and Canada, along with its other allies. President Trump also threatened to impose auto tariffs that could reach up to 25%. Tensions between Canada and the United States reached fever pitch during the June 2018 G7 summit in Quebec.

On August 27 the United States and Mexico agreed to significant changes in NAFTA, which in turn will increase pressure on Canada to come to the table and finish negotiations. Indexes in Canada and the United States surged on the news, with auto stocks leading the way. Canadian Foreign Minister Chrystia Freeland is expected to continue talks in Washington today.

Magna International ([TSX:MG](#))([NYSE:MGA](#)), the largest automotive parts manufacturer in Canada, saw its stock rise 4.24% on August 27. Shares have plunged 14.3% over a three-month span with trade tensions weighing on shares despite record earnings in successive quarters for Magna.

Linamar Corporation ([TSX:LNR](#)), the second-largest automotive parts manufacturer in Canada, climbed 6.57% on the same day. Its stock is down 17.2% over the same three-month period.

The path is far from clear from here on out. President Trump has said that he will notify Congress that he has reached a deal with Mexico and would be open to Canada joining if talks do not lead to a substantive agreement by the end of the week. The new deal between Mexico and the U.S., which will likely serve as an all-encompassing framework if and when Canada is included, will require 75% of auto content to be made in the NAFTA region. This is up from the current level of 62.5%.

Reports from within the Trump administration said the deal could shift manufacturing away from China and into Mexico. This would coincide with the U.S. trade war drive against China. The United States also backed down from a “sunset clause” and agreed to a length of 16 years for the proposed deal. However, there would be a review every six years, according to U.S. Trade Representative Robert Lighthizer.

Is a three-way deal imminent?

It is difficult to say at this stage, but the pressure on Canada will be immense as talks resume during this week. The Trudeau-led Liberal government is facing a federal election in October 2019, and there can be little doubt that the cabinet wants to close the book on what has been a nightmare trade file this year. Whatever concessions are ultimately made will no doubt be made into fodder heading into the next election. The Trump administration would also like to move forward as it faces a huge test with November midterms looming.

Magna and Linamar are still at a nice value in the final days of August. Investors should watch the progress of talks very closely over the course of the next week. There may not be many entry points available for prospective buyers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)

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