



## 3 Stocks That'll Soar if a Revised Canada-U.S. Trade Deal Is Reached

### Description

To the surprise of many, President Trump announced that a revised trade agreement had been reached between the U.S. and Mexico, well before finalizing anything with Canada. Trump has threatened to leave Canada out of the new trade deal, so, as you'd imagine, intense negotiations are likely happening behind the scenes as you're reading this. Some pundits think a finalized Canada-U.S. trade deal is imminent and could be in the books as soon as this Friday.

Trump is planning on scrapping the term "NAFTA," even if a deal with Canada is subsequently finalized. You can call it what you like, but the fact remains that Justin Trudeau isn't willing to sign any dotted line unless if a new deal is "good for Canada," implying he's willing to wait it out as Trump looks more willing to put an end to the tit-for-tat spat.

At this point, it looks like Trump is optimistic that a deal will be reached, and if Trudeau accepts, we could see Canada's battered auto stocks take off as the overhang will be eliminated in an instant. Investors in the Canadian auto part makers [Magna International](#) (TSX:MG)(NYSE:MGA), **Linamar**, and **Martinrea International** have been optimistic over the past week, and at this point it really seems like the public thinks that the "new NAFTA" (or whatever Trump wants to call it) is highly probable.

I don't know about you, but given Trump's optimistic tone with regards to a potential Canada-U.S. deal, I'd think about covering my short position in the Canadian auto part makers here.

Back in June, I'd recommended investors [short-sell Magna](#) while it was around all-time highs, as the company looked like a clunker that was extremely vulnerable to tariffs. Since my short recommendation, Magna shares have fallen 20% from peak to trough, but if a deal is reached on Friday or sometime shortly after, Magna (and other Canadian auto part stocks) could surge back toward their 52-week highs.

Now, it's not a given that a deal is going to happen, as Trump's aggressive auto tariffs could undoubtedly cause auto stocks to crumble further; however, considerable short-term upside appears to be an equally likely scenario, especially when you consider Trump's willingness to finally get a deal done, probably so it can be more aggressive with its trade war against China.

### **Foolish takeaway**

It looks like the ball is in Trump's court. Although a take-it-or-leave-it deal may be offered to Canada, I think Trudeau will live up to his word and only accept a deal if it's good for Canadians. What'll happen over the next few weeks (or months) is anybody's guess. A bilateral agreement could be reached, or Trump could slap harsh tariffs on Canada's auto part makers, causing them to decline further if a deal isn't reached by Friday.

In any case, I'd cover my short and avoid taking any sort of position in Magna or its peers at these levels, unless, of course, you're convinced a U.S.-Canada deal will end up happening. If a deal is announced, I see considerable upside of 10-15% for the Canadian auto part makers, but if no agreement is reached and Trump slaps on harsh tariffs in response, expect up to 20% in further downside!

That's way too much volatility for me, so I'm going to be watching how the situation unfolds from the sidelines.

Stay hungry. Stay Foolish.

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1. Investing

### **TICKERS GLOBAL**

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2. TSX:MG (Magna International Inc.)

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