



## Crunch Time for NAFTA: Are These Stocks Safe to Hold?

### Description

Canada is now fewer than two weeks away from the October 1st deadline that was imposed by U.S. trade negotiators after they reached a separate deal with Mexico last month. Some U.S. officials are warning that Canada could be left out of a trade agreement going forward, which could have [consequences](#) for several key sectors.

U.S. House Majority Whip Steve Scalise laid the blame on Canadian negotiators for the “continued delay” and the failure to reach a deal. In late August, a report leaked that claimed President Trump boasted to *Bloomberg* reporters that he intended to take a hardline stance that would make it very difficult for Canadian negotiators to agree.

With the fate of a future deal apparently hanging in the balance, investors may be wondering where to turn or whether to retreat from certain sectors. Today, we are going to look at three stocks that could be impacted by a deal or the absence of one by October 1.

#### **Saputo** ([TSX:SAP](#))

Saputo stock has dropped 5.1% over the past month as of close on September 18. Shares are up 4.6% week over week. Saputo leadership has thrown in its support for ending or at least dramatically liberalizing Canada’s supply-management policies. Interestingly, this policy may have emerged as the key sticking point in current negotiations.

On Tuesday afternoon, President Trump once again issued explicit criticism against what he deems an “unfair” system: “They cannot continue to charge us 300% tariff on dairy products, and that’s what they’re doing,” he said. The hardline stance has confused some analysts, as dairy represents only 0.1% of Canada-U.S. trade. The answer may lie in a political calculation, one centered around Trump’s surprise 2016 Wisconsin win.

Wisconsin produces as much milk as the entire Canadian dairy industry. Giving this strong constituency in a key swing state, access to Canadian markets could be chalked up as a massive political win for Trump ahead of the November midterms.

Saputo earnings have suffered due to broader headwinds in the dairy industry, but the company could benefit from trade liberalization going forward. The stock also offers a quarterly dividend of \$0.165 per share, representing a 1.6% dividend yield.

**Magna International** ([TSX:MG](#))([NYSE:MGA](#))

Magna International stock has dropped 19.7% over the past three months. Magna's recent quarterly earnings have been fantastic, but the fallout from a collapse in trade talks could be dangerous. The Trump administration has vowed to pursue auto tariffs worth up to 25% if an agreement is not made. This could devastate the Canadian automotive sector in the short term. Some analysts and economists have even forecast a [quick slide into recession](#) if the U.S. imposes auto tariffs.

For this reason, investors may want to wait on the sidelines until a deal is reached. Magna has a large enough U.S. footprint that a shift in content requirements is survivable, but a full-on trade war with auto tariffs thrown in could be catastrophic for business and the stock going forward.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)
3. TSX:SAP (Saputo Inc.)

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