Should You Avoid Canadian Stocks Until After a NAFTA Deal?

Description

There's been a lot of talk regarding NAFTA in the past year, and with the U.S. and Mexico locked into an agreement, it leaves Canada currently out of the mix, and that's a problem for many companies on the TSX.

Without a good deal in place, many Canadian companies can see their inputs rise in price or have their products become less competitive in the U.S. market. Under either scenario, Canadian stocks will take a hit, potentially in both their top and bottom lines.

Whether Canadians companies like to admit it or not, many of them are dependent on the U.S. and need easy access south of the border to ensure that their sales can grow. The pressure is on the Canadian government to negotiate a deal that's in the interest of Canada but also one that can be completed soon, as the latest deadline of September 30 is fast approaching.

The last deadline came and went without much consequence, but at some point the U.S. is going to pull the trigger on a deal, and that might mean one without Canada.

In the latest update, it appears as though a deal may still be far away from being complete, and with less than two weeks to go, that leaves a lot of work in not a lot of time. Prime Minister Justin Trudeau seemed to suggest that the negotiations were not progressing as expected: "There were points in the spring where we thought we were perhaps days or weeks away. Turned out not to be the case. We might be days or weeks away now. It might not be."

That's a concerning statement for Canadians, as it suggests there's still a lot of uncertainty, and that until a deal is done, regardless of how close it may appear, it could still be a long way away.

What does this mean for investors?

For investors of a stock like **Magna International** (TSX:MG)(NYSE:MGA), it creates a lot of uncertainty, as duties could weigh heavily on the auto maker's financials and the company's overall competitiveness. This has resulted in Magna's stock declining 7% this year — a far cry from the 20% return that investors enjoyed in 2017.

Magna looked poised to be one of the top performers on the TSX, but now with uncertainty around NAFTA and duties looming, investors have backed off. Earlier this year, we saw another Canadian company, **Bombardier**, take a drastic step of selling off its CSeries jets as it faced significant tariffs from the U.S.

There are many more examples, as any company that does business with the U.S. could potentially be affected.

Bottom line

The TSX is having another bad year, as the market is down 1% so far in 2018, and uncertainty with

NAFTA is clearly taking a toll on Canadian stocks as a whole. Without an agreement in place, the safest route for investors may be to skip the TSX entirely or focus on those companies that don’t do business directly with the U.S.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2018/09/20
Author
djagielski