Could October Be a Month of Reckoning for Auto Stocks?

Description

It may be time for investors to brace for a whirlwind of activity, as the October 1st deadline for Canada to be included in the upcoming U.S.-Mexico trade deal looms.

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There was speculation that the United Nations General Assembly in New York could present the opportunity for Canada and the U.S. to hold informal talks. President Donald Trump claimed that Prime Minister Justin Trudeau attempted to reach out for talks, but he was rebuffed. Trudeau denied that he attempted to organize such a meeting. In any case, the prickly rhetoric will likely leave a sour taste in the mouths of those hoping for a deal.

President Trump restated his threat that the U.S. would “tax the cars that come in” if Canada failed to make the necessary concession that will lead to a deal. Canadian ambassador to the U.S. David MacNaughton said that such a move would “fundamentally change the relationship” between the two countries “for a long time to come.”

Experts and analysts have warned that auto tariffs could cause damage on both sides of the border. In early September, **Bank of Montreal** analyst Sal Gautieri warned that auto tariffs could send the Ontario economy into a recession. The Center for Automotive Research (CAR) has estimated that the demand for cars could fall by up to two million vehicles, which could have a $60 billion negative impact on the U.S. economy. The CAR also forecast that consumers would see the price of new vehicles rise between $455 and $6,875, depending on the level of the tariff.

AutoCanada (TSX:ACQ) stock has plunged 40.9% in 2018 as of close on September 27. The company operates car dealerships in Canada. It has already seen its results soften as vehicle sales have slowed down in Canada. AutoCanada executive chairman Paul Antony is also in the middle of an internal restructuring after the company has failed to meet its financial goals. Auto tariffs would further complicate this transformation.

Automotive parts manufacturers could also take a serious hit, some more than others. **Magna International** (TSX:MG)(NYSE:MGA) stock has dropped 13.3% over the past three months. The company has posted strong results in recent quarters, but auto tariffs have the potential to significantly disrupt supply chains. It would be a bitter pill to swallow after Magna has benefited from the U.S. Tax Cuts and Jobs Act, which was enacted in December 2017.

Linamar (TSX:LNR) stock has dropped 17.5% in 2018 as of close on September 27. Linamar leadership has been adamant about its opposition to auto content demands that have been pitched by U.S. trade negotiators. A 50% U.S. auto content requirement would be damaging for Linamar, which only has about a third of its footprint south of the border. Linamar CEO Linda Hasenfratz has said that auto tariffs would be the “final step to economic disaster.”

It is difficult to predict how trade negotiations will shake out before the deadline, but it appears unlikely that an agreement will be struck at the 11th hour. Investors should exercise extreme caution with the equities covered above as we come into October.

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1. Investing

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