



3 Reasons Bank Stocks Will Benefit From a New North American Trade Deal

Description

Canadian and U.S. negotiators managed to reach a [trade agreement](#) that paves the way for a new North American trade deal on September 30. The U.S. dollar, Canadian dollar, and Mexican peso all gained on the news. U.S. indexes also performed well on October 1, but the performance of the S&P/TSX Composite Index was muted in comparison. It failed to build momentum on October 2 and shed 87 points, as energy stocks suffered through a weak trading day.

Back in August, I'd [discussed](#) the impact a new trade deal, or a failure to reach one, could have on Canadian bank stocks. Today, we will look at three reasons the top financial institutions in Canada will benefit from this deal.

An end to uncertainty on the trade book

The back-and-forth NAFTA re-negotiations have been a pain for those who have yearned for clarity on the trade front in North America. This was especially true for Canadian investors, economists, and analysts. There was concern that a failure to reach a deal could see the U.S.-Canadian trade relationship devolve into an all-out economic war. A study done by **Bank of Montreal** economists in late 2017 forecasted that a termination of NAFTA would result in a 5% drop in the Canadian dollar. It also projected that GDP growth would slow by 1% or more.

Fortunately, this appears to have been avoided. Investors and financial institutions will welcome stability on the North American continent when it comes to trade.

A win-win for banks with big U.S. interests

Positive trade relations on the North American continent should also please Canadian banks with a sizable U.S. footprint. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) got significant boosts from banking segments that relied on U.S. strength in the third quarter. TD Bank reported net income of \$1.14 billion in its U.S. Retail segment, representing a 27% increase year over year. Royal Bank saw net income its Wealth Management segment rise 19% year over year on the back of higher fee-based assets in the U.S. and Canada. Both banks also received a boost from U.S. tax reform.

Continued economic strength in the U.S. should power operations south of the border in the near term, while stability at home should help forecasts going forward.

Liberalization of trade within the North American bloc

Canada reportedly agreed to several concessions that will result in the liberalization of trade on the continent. Dairy was a hotly debated target, and the U.S. appeared to get at least some of its demands answered in this regard. A new agreement will free up trade on the continent and it has also secured the north and south flank for the United States. This frees up its hands for its core objective on trade — the economic showdown with China.

The latter development will no doubt have various implications for the Canadian economy, but freer trade on the continent will be welcomed by financial institutions in the long term.

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