Should You Buy the Dip in the Canadian Stock Market Right Now?

Description

The S&P/TSX Composite Index managed to climb 49 points on Friday, October 12 to mark a positive day after a difficult week. A global stock market sell-off was sparked on Wednesday; it swept across North American, European, and Asian markets. Analysts blamed the sell-off on the anxiety surrounding rate hikes in the United States as well as continuing trade tensions that threaten global growth.

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The TSX was up marginally in early morning trading on October 15. Things seemed to be looking up for the Canadian market after it managed to secure a trilateral North American trade deal — the USMCA — on the final day of September. The Canadian dollar rose in the immediate aftermath, but, apart from the cannabis sector, major stocks on the TSX have failed to regain momentum.

Recently, I'd discussed why investors should stick with stocks over ETFs or index funds in this choppy market. Today, we are going to look at three stocks that investors may want to target and hold toward the end of 2018 and beyond.

Royal Bank (TSX:RY)(NYSE:RY)

Royal Bank stock was down 4.3% week over week as of early morning trading on October 15. Shares are now down 3.7% in 2018. The bank has reported rock-solid earnings in 2018 and investors should expect a positive finish to the year when it releases it Q4 earnings in November.

In the third quarter, Royal Bank posted record net income of $3.1 billion, while diluted earnings per share rose 14% year over year to $2.10. The bank posted double-digit growth in its Wealth Management and Capital Markets segments on the back of positive equity market performance. U.S. tax reform also boosted earnings in both major segments.

Royal Bank also declared a quarterly dividend of $0.98 per share, which represents a 3.7% yield. Income can soften the blow for investors who are taking hits in the October market.

Stelco Holdings (TSX:STLC)

Stelco stock has dropped 4.8% over the past week. Shares are now down 6.9% in 2018. Canadian steel has been under fire from U.S.-imposed tariffs. Unfortunately, the USMCA failed to put an end to the steel and aluminum tariffs. Stelco and other major Canadian steel companies will be hoping negotiators can put an end to the spat by the time the agreement is ratified, likely sometime in November or December.

Investors will want to monitor the news closely. If tariffs are wiped away, the U.S. has hinted that it will pressure for quotas as a replacement. Stelco has posted impressive earnings in the first two quarters of 2018 and is set to release Q3 results in early November. The stock also offers a quarterly dividend of $0.10 per share, which represents a modest 1.4% dividend yield.

Magna International (TSX:MG)(NYSE:MGA)

Magna stock is down 4.9% over the past week. The Aurora-based auto parts manufacturer has seen its stock fall 12.5% in 2018 so far. The USMCA saw the threat of auto tariffs removed for Canada and Mexico, which is good news for Magna. However, the new agreement will usher in protectionist measures that have the potential to stifle growth going forward. Manga had posted record earnings before the trade spat took a toll on its stock. The company has a sizable footprint in the U.S. and is still forecasting rock-solid numbers for the full fiscal year. Shares could come at a nice discount today.

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4. TSX:RY (Royal Bank of Canada)
5. TSX:STLC (Stelco Holdings Inc.)

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Date
2025/07/19
Date Created
2018/10/15
Author
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