2 Insurance Stocks That Could Take a Hit Due to the Global Trade War

Description

Insurance and financial services companies in North America have made a concerted effort to strengthen their Asian footprint in recent years. These firms have targeted Asia due to the massive growth in the middle class that has occurred over the last several decades. By 2030, Asia is projected to be home to over 60% of the global middle class. This burgeoning middle class will also provide 55% of middle-class consumption.

This bright outlook could be in jeopardy, as rising trade tensions threaten to curb global growth. Figures released last week revealed that the growth rate of the Chinese economy sank to its lowest level since the beginning of 2009. The figures put the annual growth rate in the third quarter at 6.5%, which just missed market expectations of 6.6%. The reduction in industrial output growth has contributed to this decline, as has retail sales growth, which fell to 9.3% compared to 10.4% in the prior year.

The worsening trade war with the United States is also expected to have an impact on growth in the coming quarters. This conflict is set to intensify in 2019. Larry Kudlow, the top economic advisor to U.S. president Donald Trump, has said that China has not adequately responded to White House demands. The Trump administration has threatened to impose tariffs worth an additional $267 billion. These tariffs, which would impact multinationals that produce goods in China as well as Chinese small- and medium-sized enterprises, would have a significant impact on global supply chains.

JPMorgan Chase has said that this next tranche of tariffs would be manageable for the Chinese economy, but that it could lead to higher unemployment. Japan is expected to maintain a growth rate of 1.2% in 2018, while India is on track to post growth of 7.4%, a rate that would top its Asia-based competitors.

Manulife Financial (TSX:MFC)(NYSE:MFC) stock has dropped 12.8% month over month as of close on October 25. Shares are down 21.9% in 2018 so far. Manulife is expected to release its third-quarter results on November 7.

In the second quarter, Manulife reported that core earnings in its Asia-based business climbed to $406 million compared to $350 million in the prior year. For the first six months of 2018, its Asia-based business has posted earnings of $833 million over $707 million for the same period in 2017. Sales were driven by its Hong Kong and Asia Other sector, while APE sales in Japan fell 23% year over year.

Sun Life Financial (TSX:SLF)(NYSE:SLF) stock has dropped 6.9% over the past month. Shares are down 7.2% in 2018. The company is expected to release its third-quarter results in early November.

In the second quarter, Sun Life reported adjusted net income of $145 million in its Asia-based segment, which was up 18% from Q2 2017. Insurance sales rose 25% year over year to $212 million. This growth was powered by results in Hong Kong and the Philippines.

Holders of these stocks should not panic just yet, but worsening trade tensions could lead to lower forecasts in Asia. The Trump administration has targeted China's industrial and technological growth in the opening shots of its trade war, and this could directly impact the growth of middle-class wealth in what is still by far Asia's largest and most significant economy.

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Author
aocallaghan