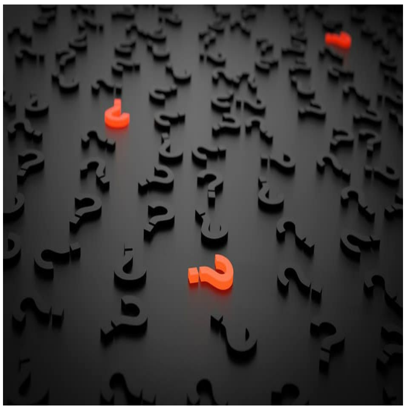

Will the Canada-China Spat Hurt These 2 Stocks?

Description

Earlier this month, I'd discussed how increased tensions between Canada and China had hurt the stock price of **Canada Goose** and how this had the potential to torpedo the company's growth strategy going forward. Canada Goose stock reached its lowest point since June in trading on Christmas Eve. Tensions between Canada and China have not abated since the arrest of Huawei executive Meng Wanzhou.

Other Canadian business are also exposed to increased risk due to this spat. North American insurance firms have met with success in developing Asia-based markets. This is in large part due to the huge growth of the Asian middle class spurred by the growth of China over the last 20 years.

Worsening tensions have the potential to blacken the reputation of Canadian firms operating in China. A prolonged trade war between the United States and China will also have a negative impact on global growth, which will in turn push down the purchasing power of Asia-based consumers.

Today, we are going to look at two Canadian firms that will be exposed to more risk if tensions between Canada and China darken in 2019.

Sun Life Financial (TSX:SLF)(NYSE:SLF)

Sun Life is a Toronto-based company that provides insurance and financial services to individual and corporate customers in Canada and around the world. Shares of Sun Life have dropped 7% month over month as of close on December 27. The stock is down 14% in 2018.

All the way back in 2010, Sun Life had touted its growth trajectory in China. Its Asian division has been a key driver for growth over the past decade. Sun Life's net income from Asia took a significant hit in the third quarter. Its underlying net income from Asia declined 15% year over year in Q3 2018 and overall net income fell 30% to $567 million.

Sun Life still managed to beat analyst expectations, but the performance in Asia cast a shadow over the quarter. Slower growth in Asia combined with its reputational risk should be a concern for investors going forward.

Manulife Financial (TSX:MFC)(NYSE:MFC)

Manulife Financial is another Toronto-based insurer that provides financial services. Shares of Manulife have dropped 27% in 2018 so far. The stock has plunged 12% over the past month.

In the third quarter, Manulife's profit rose 42% year over year to $1.57 billion on the back of 22% growth in its core Asia earnings. This greatly helped offset a drop in its net income for its domestic operations. Manulife stock has also suffered due to a short-selling campaign from Muddy Waters that alleges an ongoing trial could lead to "billions of dollars in losses."

These developments have combined to push Manulife to 52-week lows, which were reached on the tumultuous Christmas Eve trading day. Although Manulife's Asia-based business remained strong in Q3 the risks surrounding the company are worrying as we head into 2019. Both stocks now offer increasingly attractive dividends, but investors should expect volatility to spill over into the new year.

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Date
2025/08/25
Date Created
2018/12/28
Author
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