3 Stocks That Will Suffer if the Canada-China Spat Worsens

Description

In August 2018, I'd discussed how the spat between Canada and Saudi Arabia proved that politics would play a larger role for investors. Bridgewater Associates founder Ray Dalio said in 2017 that political shifts would shake markets in the coming years. That prediction has proven accurate as we sit in early 2019.

Recent tensions between Canada and China threaten to throw a close economic relationship into turmoil. The arrest of Huawei executive Meng Wanzhou by Canadian authorities in December cooled relations between the two countries. China has responded by detaining Canadian ex-diplomat Michael Kovrig. Chinese courts also held a one-day retrial for Canadian Robert Schellenberg on drug charges in which they changed his sentence from 15 years to death.

China has demonstrated that it is more than willing to throw its weight around in this geopolitical struggle. It has also threatened boycotts of Canadian goods, which could throw the growth strategies of top Canadian companies into flux.

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock has dropped 9.2% over a three-month span as of early afternoon trading on January 17. The company's growth strategy heading into the next decade is largely dependent on its expansion in China. Canada Goose sees 10% of its international business stem from activity in China.

In late December, Canada Goose opened its new outdoor wear store in downtown Beijing. **Reuters** reported large crowds at the retail outlet, despite sub-freezing temperatures and poor relations between the two nations. Canada Goose has been mum on Chinese social media while moving forward on the opening.

Chinese consumers account for more than 35% of luxury spending worldwide, and this number is expected to grow in the next decade. Canada Goose is well positioned to take advantage of this influential consumer base, but its lucrative brand will be at risk in mainland China if relations do not improve going forward.

Manulife Financial (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF) have been the beneficiaries of a burgeoning middle class in China. Both stocks have started off well in 2019. Manulife and Sun Life are not at risk of brand contamination like Canada Goose, but a rocky relationship between Canada and China has the potential to threaten financial ties.

More alarming is the impact rising trade tensions will have on global growth. In this instance, the ongoing dispute between the United States and China is the more pressing concern. Manulife and Sun Life have reaped the rewards of a growing middle class in China. In January, 12 of China's 31 province-level divisions had downgraded their growth targets for 2019. The most populous province, Henan, has downgraded its target from 7.5% to 6.5% this year. The Beijing region has also downgraded its growth target to 6% from 6.5%.

Manulife was able to rely on strong growth in its Asia business in Q3 2018, but Sun Life saw a 24% year-over-year dip in reported net income. This was due to unfavourable market conditions, which will likely spill into Q4 and 2019.

Investor should not expect Canada-China relations to warm any time soon. Canada is locked in with its ally the United States in what could be a prolonged trade war with China that will extend into the next decade.

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