Manulife Financial (TSX:MFC): Still a Buy in a Trade War?

Description

Now that talk of tariffs and a full-blown trade war between the U.S. and China is gaining steam with each passing day, another previously discussed risk is making the rounds again, namely that Canada could be caught in the crossfire between the two market behemoths, with a range of products and services potentially posed to see a downturn if and or when that trade war escalates further.

One such company that could be caught in the crossfire as collateral damage is **Manulife Financial** (TSX:MFC)(NYSE:MFC), prompting many investors to look for alternative, if not defensive investment options.

Why a trade war matters to Manulife

Manulife is the largest insurer in Canada and has amassed a massive clientele over the years to the point that a third of Canadians are considered clients of the insurance titan. In order to continue to realize growth, Manulife turned to foreign markets, particularly in Asian markets, where a booming middle-class that was funded by passed-on wealth had the desire to purchase the products Manulife offered.

Through a series of well-executed agreements, Manulife established preferred, and in many cases, exclusive status in local markets to provide those financial products, leading to Manulife realizing prolonged double-digit growth in the region. While Manulife is diversified across various Asian markets, a prolonged trade war with China could mean that Manulife loses favour there.

Should you invest in Manulife?

There are plenty of reasons why investors should consider investing in Manulife. Apart from the massive foothold the company has in Canada and its growing and increasingly diversified portfolio of investments in Asia, Manulife continues to offer investors plenty of opportunities, both in the form of increased growth as well as income-earning potential.

The company’s quarterly dividend, which currently provides an appetizing 4.41% yield, has seen a series of annual or better upticks stemming back nearly a decade, the most recent of which was last August.

Turning to results, the recently announced update on the first fiscal quarter of 2019 showcased several strong points for investors to consider, such as a 15% increase in core earnings to $1.5 billion over the same period last year, and a $0.8 billion increase in net income over the same quarter last year, coming in at $2.2 billion.

Ongoing efforts to increase efficiency and streamline operations also bore fruit in the quarter, with the company’s expense efficiency ratio posting a 2.1% improvement over the same period last year. The adoption of technology is a key component of that efficiency movement, and Manulife’s digital customer-centric strategy continues to hit important milestones, such as the implementation of electronic claims systems in Asia as well as a voice-enabled retirement product launched to the U.S. market.

While those gains are impressive and do paint the picture of a company set to witness further growth, there is a volatility aspect with Manulife that potential investors need to aware of. As noted above, a prolonged trade war could well put a damper on part of Manulife’s Asia business, which in the most recent quarter provided $411 million in new business, thereby reflecting a 23% year-over-year improvement.

In summary, if your portfolio can tolerate some short-term risk, Manulife is a very attractive offer for growth and income-seeking investors.

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