



Why Fortis (TSX:FTS) Stock Rallied While the TSX Index Fell on Trade Worries

Description

Last week saw a major downturn on the TSX Index, which shed 1.89% of its value over the course of five days. The week's losses followed a weak May, which saw the worst monthly performance of the year for the index. In the midst of this selloff, a few sectors were particularly hard hit, including banks, weed stocks, and energy stocks — the latter of which is contending with a drop in the price of crude oil.

In the midst of this chaos, however, one stock had a great run.

Over the course of May, shares in **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) rose about 3%, hitting all-time highs while most other TSX stocks fell. This performance was not unusual for Fortis, which tends to perform well in down markets: during last year's correction, the utility fell just 7% and quickly recouped its losses.

It's natural for investors seeking safety in turbulent times to flee to stocks like this, which seem impervious to market crashes. But to understand if it's really as safe as it appears, we need to look at why Fortis has such a contrarian streak in down markets.

Safety in utilities

The biggest reason that Fortis does well in down markets is because it's a utility stock. As a company that sells power to customers across the U.S., Canada, and the Caribbean, it provides an essential commodity that people can't cut in the worst of times. Fortis is not alone among utilities in this regard: utilities as a class [tend to rise when everything else falls](#); **Algonquin Power & Utilities** did even better in May than Fortis did.

Stocks that sell basic products everyone needs will naturally do well in recessions, when people cut the "wants" out of their budget. But that's not the only reason Fortis is doing well now.

A lack of trade

One big reason that Fortis stands to profit in today's environment is that it doesn't export or engage in trade. While Fortis does have assets in foreign countries, it operates through subsidiaries incorporated in those countries. Consequently, it's not adversely affected by the [tariff-happy trade environment](#) we currently find ourselves in. Of course, there could be some risk to Fortis's foreign subsidiaries down the line: if the U.S. decides to increase dividend withholding taxes, then earnings could take a hit. For now, however, the company's international holdings are safe.

U.S. exposure without tariff risk

As a corollary to the previous point, there's also the fact that Fortis gets a lot of U.S. exposure without the threat of tariffs. Because the company is an owner of U.S. subsidiaries rather than an exporter, it gets the two main benefits of U.S. action (the USD/CAD exchange rate and high growth prospects) without the tariff threat. While Canadian companies always thrive selling goods to the U.S. in a low-CAD environment, the current trade climate puts all that at risk. Fortis's U.S. operations leave it free to earn U.S. dollars without having to fear getting Trumped.

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Date

2025/09/18

Date Created

2019/06/05

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