Here's How the TSX Responded to the Mexico Tariff Deal

Description

May ended on an unsettled note, with the threat of U.S. tariffs on Mexico rattling investors who were still getting used to the idea of the U.S.-Mexico-Canada Agreement. A somewhat predictable flight from risk assets ensued, further weighing on vulnerable sectors already depressed by unfavourable international growth forecasts, as well as various ongoing geopolitical tensions.

Indeed, investors already concerned over Canada's exposure to trade tension between our two largest trading partners were easily spooked by further such developments, with Bloomberg Intelligence economists underlining 17% of Canadian growth as being dangerously exposed to the so-called U.S.-China trade war.

Energy and mining stocks subsequently fell, with lower prices in oil and gold bringing down both sectors, with some missed earnings expectations weighing on financials. However, the **TSX** was lifted slightly at the end of last week as various sectors stocks rallied on news of delayed Mexico tariffs; the following two stocks are illustrative of the resultant "bounce" effect that followed.

Battered oil stocks became instantly attractive

With five-day losses of 2.77% incurred in the middle of last week, the oil-heavy ticker **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) fared poorly on a combination of lower oil and increased bearishness in the markets. To say that these losses were due at least in part to the threat of increased trade tensions between Mexico and the U.S. may be a fair assumption.

That share price immediately began to recover on Thursday's encouraging news, however, rebounding by a percentage point on Saturday, showing just how susceptible oil stocks are to sudden changes in North American trade agreements.

Attractively priced with a price-to-earnings of 14.5 and P/B of 1.3 times book, Canadian Natural Resources pays a moderate dividend yield of 3.93%, and is likely to grow its earnings by12.2% overthe remainder of this fiscal year. As such, Canadian Natural Resources could be suitable for an oilbull's TFSA or RRSP.

Investors rushed toward value opportunities in marijuana

The high-growth pot stock **HEXO** (TSX:HEXO) also bounced on the Mexico tariff deal, following investors' sentiment toward risk. Down 1.85% in the middle of last week, HEXO's share price subsequently rebounded by 1.67% as previously spooked investors flooded back in to risk assets after the encouraging news.

A growth stock with high price volatility, HEXO's 36-month beta of 4.88 represents the type of stock that will swing wildly when the market is stressed. An outperforming stock with year-on-year returns of 65.24% and high growth in earnings (see an expected 63% by 2022, for instance), HEXO's response was textbook and could indeed serve as an indicator of how stocks in the cannabis space will behave in the future.

The bottom line

As the other erstwhile member of NAFTA, Mexico's trade agreements with the U.S. are likely to be of interest to Canadian investors given our own potentially mercurial standing with our nearest North American trade partner.

As such, any new developments on that front are likely to impact the TSX and any stock portfolio directly exposed to it, with risk assets liable to get dumped and subsequently snatched back up again at lower prices.

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1. Cannabis Stocks
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2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:HEXO (HEXO Corp.)

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Date
2025/08/23
Date Created
2019/06/10
Author
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