U.S.-China Trade War Turning to Currency War: What Should Stock Investors Do?

Description

The U.S. market, using **S&P 500** as a proxy, fell about 3% on Monday. Asian markets, including China's **Shanghai Index** and Hong Kong's **Hang Seng Index**, also saw red.

The Canadian market, which was closed on Monday in observance of the civic holiday, was saved from the drop, albeit temporarily. It's expected that the market will be lower today.

What triggered the selloffs was that the Chinese yuan fell below the seven-dollar level against the U.S. dollar for the first time since 2008, whereas China normally puts a floor at that seven-dollar level.

Trump tweeted that this was China's "currency manipulation," which is viewed as an extension of the trade war between the two largest economies of the world.

What should stock investors do?

First of all, don't panic. It's about time the North American stock markets experience a correction as they recently hit new highs. Investors should welcome the opportunity to buy great stocks at cheaper prices.

Most importantly, stay the course on your investing journey. If you built your stock portfolio correctly, you should feel comfortable holding on to your stocks, and in fact, buy more shares at more attractive valuations.

I'm talking about stocks like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). The bank is very well run. It had consistently achieved returns on equity (ROE) of 15-21% since fiscal 2010. In fiscal 2009, during the last financial crisis, it still made a very good ROE of 10.5%! So, you can count on the quality bank making hefty profits through all kinds of economic environments.

CIBC is the most Canadian bank. It generates about 70% of its adjusted net income from Canada (in personal and small business banking, commercial banking, and wealth management). It also has about 11% exposure to the U.S. (in commercial banking and wealth management).

The stock has already been under pressure in the last year with fears of a housing bubble in Canada. Some analysts don't even believe there is one to begin with!

Anyway, CIBC stock got shaved off 1.5% on the NYSE on Monday. If the same thing happened to the stock on the TSX today, it'd trade close to $100 per share at a compelling price-to-earnings ratio (P/E) of 8.3 — a 19% discount from its normal P/E. This would imply a safe yield of nearly 5.6% and 24% upside potential on a reversion to the mean, resulting in the potential for total returns of nearly 30% over the next 12 months!

Foolish investor takeaway

Market corrections are investors' best friends! Stay the course and add to quality and undervalued dividend stocks, such as CIBC, which have thrived through all kinds of economic environments. (And this one is expected to be no different.) Then get paid a bigger yield while you ride through the volatility.

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