Why Magna (TSX:MG) Stock Rose 4% in August

Description

Canada has been benefitting from U.S. president Donald Trump's trade war with China. These benefits are showing up in rising foreign direct investment in Canada. Industries highly reliant on manufacturing, like technology, are seeing soaring stock prices.

One example of rising Canadian technology share valuation is **Shopify**, which soared over 160% in the past 12 months. Although **Magna** (TSX:MG)(NYSE:MGA) has not done as well as Shopify this year, it is also seeing similar shareholder activity.

Ultimately, Magna is rising and falling along with investor sentiment in Canadian manufacturing prospects. Overall, the political environment is weighing heavily on the automotive industry but is harming Magna to a lesser degree. The stock likely rose in August due to Magna's better-than-average industry outlook for profits in the short to medium term.

Magna rises and then falls

Magna hit a five-year high in June 2018 — a year and a half after U.S. president Donald Trump took office and began putting into action aggressive trade negotiation strategies. Magna's stock price appreciated by over 50% to over $86 per share from the time U.S. president Donald Trump took office until mid-June.

By mid-June, Magna began falling in value once again to its current price of just over $65 per share. August's price action was more muted for Magna stock, but it did see a boost of 4% during the month after announcing earnings on August 8.

Magna confident in its ability to navigate economic conditions

Compared to global light vehicle production, Magna performed remarkably well. While the industry suffered a 6% loss in productivity, Magna's sales only decreased by 1%. The company is well positioned to take on the economic challenges ahead of them.

The earnings announced August 8 pointed shareholders to the same risks as explained in the 2018 annual report to shareholders. These risks include an erosion of free multilateral trade agreements and a rise in nationalist governments.

Rise in nationalist governments

The most salient nationalist government is the United States. U.S. president Donald Trump leads on a platform of aggressive trade policies. Trump appeals to individuals and businesses in slowing U.S. sectors like manufacturing.

Populist policies like NAFTA renegotiation under a new title and Trump's trade war with China pose significant harm to the automotive industry. While these policies may not help Magna, investor sentiment may be that Magna is more shielded than U.S. peers. After all, it is a Canadian company serving global automobile brands, including those in Europe.

Although not arising out of nationalism, Magna similarly considers Britain, Italy, and Poland high-risk countries due to their interest in withdrawing from the European Union.

Impact on Magna

With Brexit trade renegotiation stalled in the U.K. parliament, uncertain trade terms prevent Magna from understanding Brexit's full implications on the automotive industry. Moreover, Poland and Italy are considering similar exits from the European Union due to strict membership rules such as fiscal austerity policies.

Depending on the level of membership in the E.U., to share in the common currency and full trade benefits, countries need to maintain set levels of debt. This prevents member countries from making democratic fiscal and monetary policies. The loss in autonomy has caused significant conflict and economic volatility between member countries.

While E.U. withdrawals are not inherently bad for the global economy, countries that do withdraw should finalize new trade terms quickly to reduce uncertainty in business planning.

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