How to Profit From Another Year of the Trade War

Description

It doesn't take much to weigh on the markets at the moment, and the ongoing trade dispute between China and the U.S. is having a persistently depressive effect. Last week provided an illustrative example, as all three major U.S. indexes were down after Chinese officials cut short their American trip, while President Trump stated that a trade deal may not happen before the election next November.

The question is, how should Canadian investors prepare themselves for another year of the grinding trade war? Another +12 months of the Sino-American dispute might cause lasting economic damage, affecting the markets and, by extension, a TSX stock portfolio.

Expect gold to continue rallying

The yellow metal has continued to perform well as the trade war has weighed on the markets. If the dispute between the U.S. and China rumbles on into next year and lasts all the way into early winter 2020, investors should expect to see gold stocks go from strength to strength, as investors seek out safe-haven assets.

Kirkland Lake Gold (TSX:KL)(NYSE:KL) is a strong play in the gold mining space with an enviable balance sheet and encouraging track record. The stock is overvalued compared with its peers, trading at almost seven times book, while the average Canadian miner trades with a P/B of 1.5. However, Kirkland Lake Gold has far outperformed the Canadian metals and mining industry in the past 12-month period, with total returns of 162.4% versus the average 22%.

Limit exposure to companies heavily exposed to trade

Investors wishing to drop excessive risk from their stock portfolios should look at luxury goods as prime investments due for cashing in. Tech stocks displaying overvaluation would also be a good place to start paring away any dead wood, while certain cannabis stocks that have lost too much of their upward momentum might also be a good place to free up some capital.

If there’s no change in the trade situation between our two largest trading partners, or if the situation worsens, investors might expect to see the Bank of Canada lower the interest rate. The bank recently made it clear that there would not be a rate cut before the October election, meaning that investors have a concrete deadline to adjust their stock portfolios accordingly.

From a macro-economic perspective, positioning politics ahead of stimulus is a questionable move in an economy that is heavily asset based. Continuous inflation of assets underpinned by repressed income growth is a textbook route to a bubble, with dangerous household debt accumulation thrown in for good measure. However, only history will tell whether holding back on a rate cut is a good move or not.

The bottom line

Getting into gold is a classic play that fits a lot of the potential outcomes of the current situation. If the trade war continues to weigh on the markets, there is a chance of America sliding into recession, threatening a similar situation in Canada. However, even if the economy remains strong or even improves, decently valued gold stocks can till form part of the defensive backbone of a longer-term investment strategy.

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vhetherington