Buy Agri Stocks to Play the “Phase 1” China Trade Deal

Description

A “phase one” trade deal has been reached at the very last minute, giving the markets a full day of trading to adjust to the relaxed tensions between the U.S. and China. For nearly two years, our two largest trade partners have been engaged in a trade war that has weighed on the markets and stalled global growth.

With a December 15th deadline that had loomed large over the week now defunct, investors can breathe a little easier.

The record bull run continues

The tentative Sino-American trade agreement will likely see the Asian economic powerhouse beef up its imports of American agricultural products as well as sign on to a raft of deals pertaining to intellectual property and the financial services sector. In exchange, the U.S. will relax tariffs on US$250 billion of goods and negate a raft of additional duties that would have come into effect over the weekend.

Across the pond, the Tory win has worked out well for supermarket stocks in the U.K., which have risen on expectations of a Santa Rally. Investors this side of the Atlantic might expect something similar, as retail stocks linked with China trade, such as **Canada Goose**, could catch tailwinds from a relaxation of trade tensions, and the full set of Cannabis 2.0 product types finally goes on sale.

It’s time to buy agri stocks

The China move is especially significant and is likely to see markets rise on fresh bullishness. Investors may even expect to see a relief rally in affected sectors, such as tech and agri as 17 months of economic antagonism comes to an end. Indeed, at the start of the week, market analysts were still wrestling with the prospect of another year of the trade war. While the trade war isn’t over yet, it’s certainly a positive step.

Nutrien (TSX:NTR)(NYSE:NTR) is a strong strategic play for agri upside and passive income. There’s still a chance to lock in a slightly richer dividend, yielding 3.78% at present. The fact that the biggest agri retailer in North America scaled back potash production due to weakening demand still offers a slight value opportunity at the moment, though that window could close fast, as investors buy on China trade strength.

The 3% yield of **Restaurant Brands** is also a tasty play for passive income in the consumer staples area, plus a strong choice for some moderate growth as the franchise owner continues to expand into new territories. By adding meat-free options, going green is also working for the Tim Hortons owner, with alternative protein positioning itself to be one of the major growth themes of the new decade.

The bottom line

It was the deal that everybody has been waiting for. If China agreed to buy U.S. agri goods, they wouldn't get hit with new tariffs. That deal seems to be holding, while on another front, USMCA could see a boost to Canadian dairy. Along with fast-food brands, input consumer staples are a hot play right now, with the leading potash miner Nutrien leading the pack.

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