China vs. America: Why Canadian Investors Should Worry

Description

The world's two largest economies are locking horns over the origin of the deadly COVID-19. You can't ignore the posturing of each side as the situation can turn ugly. Canadian investors should worry about a brewing geopolitical conflict.

Canada will be in the middle of a full-scale clash between the U.S. and China. While the stock market is showing signs of a recovery, investors must not feel too complacent.

Economic fallout

Global markets are very fragile at present. If tensions escalate, it will quash the market rally and send the **TSX** into a tailspin again. Aside from coronavirus, there are other risks to stability. Oil is one plus Washington's desire to rework supply chains away from Beijing. China is Canada's third-largest export market.

High-profile firms like **Canada Goose** (TSX:GOOS)(NYSE:GOOS) and **Magna International** (TSX:MG)(NYSE:MGA) are doing business in China. The vast Chinese market is a significant part of their growth plans. A backlash from the U.S.-China dispute could wreck those plans.

Supreme test

Canada Goose relies heavily on China and some European markets to generate revenues. This $2.16 billion luxury clothing company reported a 37% sales growth in 2019. But because of the COVID-19 pandemic, business is slowing down. The stock performance in 2020 reflects the impact of the health crisis.

As of May 28, 2020, the price is $19.98, representing a year-to-date loss of 44.8%. For May alone, Canada Goose sunk by 16.2%. The high-end coat maker is preparing to release its fourth quarter and fiscal 2020 results on June 3, 2020.

Market analysts expect Canada Goose to report a quarterly loss due to an estimated revenue drop of 35.3% versus the same quarter in the prior year. There are too many uncertainties in the retail space, particularly luxury retailers.

The supreme test of Canada Goose's staying power is coming. Investors are anxious to see if sales will soar in the fall and winter seasons when demand for parkas is highest.

Rattled business

The novel coronavirus is rattling the auto industry as well. Magna International expects lower production volume and margin depletion in 2020. Weak consumer demand and declining light vehicle production will continue to impact sales and earnings in the near term.

This 17.33 billion global automotive components supplier took a big hit in the first quarter of 2020. The quarter ended March 31, 2020, saw an 18.26% drop in sales compared with the same period in 2019. Net income fell sharply by 76.4%. Magna investors are losing by almost 17% year to date, albeit earning 3.98% in dividends.

The main focus today is cost discipline to sustain margins and navigate the health crisis better. So far, the cash position is strong ($1.26 billion as of March 31, 2020). Also, the company has an unused and available credit line of $3.1billion.

Magna has two joint ventures in China that are producing composite liftgates for crossover vehicles and multiple vehicle platforms.

Collateral damage

Canada Goose and Magna could be the collateral damage if U.S.-China relations deteriorate. Likewise, China can retaliate after a Canadian court ruled to proceed with the extradition case against a top Huawei executive. The situation is fluid.

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