Canadian Dollar: 3 Stocks to Buy With a Stronger Loonie

Description

Over the past month, the Canadian dollar has been on the rise, going as high as US$0.75 in a few short weeks. During the COVID-19 market crash, the loonie had been on the decline, thanks to tanking oil prices and a weak domestic economy. The loonie's recent ascent reflects a steep recovery in the price of oil, which sat at $38.80 as of this writing.

This all sounds like good news on the surface. But a stronger loonie is actually bad news for many Canadian companies. A stronger loonie makes Canadian exports less competitive and lessens the favourable exchange rate impact of U.S. dollar revenue. However, it makes imports cheaper, but that's mainly a direct impact to the consumer; companies in the TSX 60 benefit more from exports to the U.S.

With that said, it's possible to find stocks that benefit from a stronger loonie. If you focus on companies that import from the U.S. rather than export to it, then you'll see favourable exchange rate impacts with a strong loonie. Additionally, if the dollar gets extremely strong, you can buy U.S. stocks at favourable prices. With these facts in mind, here are three stocks to consider buying with a stronger loonie.

Metro

Metro (TSX:MRU) is a Canadian grocer that operates in Ontario and Quebec. Metro's corporate website makes no mention of any locations outside these provinces. This means that its revenue comes entirely from within Canada. When it comes to expenses, it's a different story: Metro imports some of its goods from foreign countries. Some foreign brands it stocks include **Heinz**, Budweiser (in Quebec), and **PepsiCo**. A stronger loonie means products by these brands can be imported more cheaply.

Additionally, the company's 2016 corporate responsibility report showed that it extensively purchased foreign fish and shrimp. With a stronger loonie, such imports become cheaper, which would lead to higher profit if all else is the same.

Brookfield Asset Management

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is a diversified asset management company with investments in real estate, infrastructure, renewable power, and private equity. With a stronger loonie, an asset management company like Brookfield can invest more cheaply in foreign assets.

Any time you make an investment in a foreign country, you have to factor in the exchange rate. If your local currency is historically low and likely to go up, then that makes foreign investments less logical. But if your local currency is strong, it makes a lot of sense to invest in foreign countries. That logic applies to BAM.A, and it also applies to Canadians who invest in the next stock on this list

Costco

Costco Wholesale (NASDAQ:COST) is one of the best companies in the United States. In its most recent quarter, it earned $1.89 per share, beating the consensus estimate of US$1.85 per share. It grew same-store sales by a whopping 7.8%. The long-term picture has been equally rosy: COST appreciated 433% over the course of the 2010s.

Costco is a worthy stock for any investor to consider. With a strong Canadian dollar, buying it makes even more sense. As mentioned in the discussion of Brookfield Asset Management, you can invest more cheaply in foreign assets when your local currency is strong. Right now, the Canadian dollar is appreciating against the U.S. dollar, so you can buy COST cheaper in Canadian dollar terms. If you buy now and the Canadian dollar starts falling again, you'll realize a higher return.

With or without currency fluctuations in mind, this is a great time to buy COST, a rare stock that made it through the COVID-19 crisis in great shape.

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Date
2025/07/20
Date Created
2020/06/11
Author
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