Forget Metal Tariffs and Buy This 1 Stock on the Pullback

Description

If you hold metal stocks — or anything tangentially related to manufacturing — you may want to turn on the news. Metal tariffs are back on the agenda as the Trump Administration seeks to curb Canadian exports. Investors should keep an eye on stocks with exposure to cross-border trade in aluminum, and, to a lesser extent, steel. Value opportunities could also be forthcoming in unaffected names caught in the crossfire.

default watermark

Weighing up metals stocks ahead of a renewed trade war

Names to watch include **Russel Metals** (TSX:RUS), which sources all of its revenue in North America. The stock was slightly negative midweek. Would-be shareholders already have a 9.1% dividend yield to consider. This could widen if Canadian metal markets are materially impacted in the coming months. Of course, rich yields in this market can also be red flags, highlighting either critical undervaluation or unsustainable payments.

Indeed, several markers of a buy-worthy stock have gone out the window during the pandemic. Look at the P/E ratio, for instance. Earnings have been massively skewed by the health crisis, rendering this particular market ratio less meaningful than would normally be the case.

Yields, too, are not the usual indicator of a buy signal in dividend stocks. Other metrics are more useful here, such as growth rates, debt to equity, and payout ratios.

But let’s get back to Russel Metals. One reasons why this name could stand out this year – and why it stood out two years ago – is that it doesn’t actually trade across borders.

As it doesn’t ship anything to the U.S., this major distributor and processor is immune to the trade commotion. In fact, higher prices in the U.S. would actually bolster Russel Metals’ bottom line.

A new source of uncertainty

What could be in the pipeline for metals investors? The Trump Administration is poised to reimpose tariffs on aluminum and steel exports. While there are broader implications of a renewed North American trade war during a barely contained pandemic, metal stocks could take a direct hit.

Aluminum exports are particularly at risk, and could well become a bone of contention between Canada and the U.S. over the summer.

Since the U.S. is Canada's most significant trade partner for aluminum and steel, the re-imposition of tariffs could come as a shock to the system.

In fact, the U.S. accounts for over 80% of Canadian aluminum and steel sales. This country got a taste of American trade aggression when the Trump Administration slapped 25% and 10% tariffs on steel and aluminum, respectively, back in 2018.

Though the tariffs were rolled back just over a year ago, their reapplication could see a repeat of 2018. Back then, the round of U.S. metal tariffs generated a wave of anxiety, and the entire **TSX** dipped as a result.

But the trade war proper hadn't begun, and there was no pandemic to deal with. As a result, the lifting of the tariffs in 2019 made little difference to the TSX. Investors should therefore expect extra turbulence.

default watermark

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:RUS (Russel Metals)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
4. Stocks for Beginners

Date

2025/07/31
Date Created
2020/06/27
Author
vhetherington

default watermark

default watermark