Ray Dalio Is Worried: Here's Why You Should Invest in These TSX Stocks Today

Description

Ray Dalio is a hedge fund manager who has served as co-chief investment officer of Bridgewater Associates since 1985. All the way back in September 2017, I'd discussed a letter that Ray Dalio published on the state of domestic and world politics. At the time, he'd suggested that politics would "play a greater role in affecting markets" than any time since 1937. When we look back at the last three years, Dalio's prediction holds true.

No year bears this out more than 2020. This year started with the killing of a top Iranian general, which inflamed tensions between the United States, Iran, and their respective proxies. An oil price war between Russia and Saudi Arabia also contributed to turbulence in oil and gas markets. However, nothing compares to the devastation wrought by the COVID-19 pandemic.

The nations of the world are progressing quickly towards a vaccine. However, the pandemic has also worsened tensions between great powers. Ray Dalio is particularly concerned about the relationship between two of the top dogs on the planet.

Ray Dalio: Why the U.S.-China economic clash could lead to conflict

In recent comments, Dalio said that economic tensions between the United States and China could escalate into armed conflict. He drew parallels with the economic tensions that existed between the great powers in the years before World War I and World War II. Tensions between the U.S. and China have risen since China imposed a new security law on the semi-autonomous region of Hong Kong.

Back in the spring, Ray Dalio said that the days of U.S. hegemony were numbered. As the U.S. struggles with its relative decline on the world stage, the likelihood of an armed conflict will increase.

A shooting war between the U.S. and China would be catastrophic. We should all hope for the triumph of diplomacy in the years and decades ahead. However, this environment will inevitably lead to more investment in military and defence for the U.S., China, and other powers. Because of this, I continue to have my eye on defence stocks.

Two defence stocks to snatch up in the summer

Investors who wish to heed Ray Dalio's words should consider some of the top defence stocks on the TSX today. Both companies are reliant on the aerospace industry. This sector has been throttled during the pandemic. Fortunately, this has created a potential buy-low opportunity.

CAE (TSX:CAE)(NYSE:CAE) is a Montreal-based manufacturer of simulation technologies and training services to airlines, healthcare specialists, and defence customers. Its shares have dropped 41% in 2020 as of close on July 23. The company released its fourth-quarter and full-year fiscal 2020 results on May 22.

It was a strong year overall for CAE, even as the COVID-19 pandemic weighed on its earnings to close out fiscal 2020. Annual revenue increased 10% to $3.6 billion, and it closed the year with a $9.5 billion order backlog. Defence revenue in Q4 FY 2020 fell 12% from the prior year, largely due to delays related to the pandemic. For the full year, defence revenue experienced 2% growth.

Shares of CAE last possessed a favourable price-to-earnings ratio of 17 and a price-to-book value of 2.1. CAE faces challenges as the aerospace sector looks to bounce back. However, I'm still bullish on this stock in the long term.

Heroux-Devtek is another Quebec-based firm in the aerospace and defence sector. Shares have dropped 48% so far this year. In Q4 FY 2020, the company still achieved sales growth of 5.6% and adjusted EBITDA growth of 16.4%. All its facilities have continued operations, and its boasts available liquidity of $193 million.

The company's funded backlog stood at $810 million to close out the year. Two-thirds of this backlog were taken up by defence orders. The stock looks attractive, as it is trading near a 52-week low.

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Date
2025/08/25
Date Created
2020/07/26
Author
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