



## Warning: Canada Vows Trade War With the U.S.

### Description

Last week, President Trump imposed a 10% tariff on Canadian aluminum products. The immediate and long-term impact of a trade war could be sizable.

“The move, which prompted Canada to pledge retaliation, reignites trade tensions with a key partner just months after the adoption of a new North American trade agreement,” [warns](#) *The Washington Post*.

### What to expect

Canadian politicians were quick to respond to the new tariffs.

“Canadian aluminum strengthens U.S. national security and has done so for decades through unparalleled co-operation between our two countries,” Deputy Prime Minister Chrystia Freeland said, adding that Canada will “swiftly impose dollar-for-dollar countermeasures.”

“We will always stand up for our aluminum workers,” Prime Minister Justin Trudeau stressed. “We did so in 2018, and we will stand up for them again now.”

This may seem like an isolated incident that only impacts aluminum producers and consumers. It would be a mistake to believe that. Due to long-term trends like income inequality, plus recent phenomena like the coronavirus pandemic, countries have been increasingly isolationist, focusing on national interests versus international cooperation.

“Severe economic downturns with large wealth gaps, large debts, and ineffective monetary policies make a combustible combination that typically leads to significant conflicts and revolutionary changes within countries,” explains Ray Dalio, head of one of the largest hedge funds in the world. “During periods of great conflict, there is a strong tendency to move to more autocratic leadership to bring order to the chaos.”

The U.S., Canada’s closest trading partner, has already introduced trade wars with some of the strongest powers on the planet, including China. The ultimate impacts are still unknown, but they could

be severe.

“The United States and China are now in an economic war that could conceivably evolve into a shooting war,” Dalio adds.

<https://www.nytimes.com/2020/08/06/business/economy/trump-canadian-aluminum-tariffs.html>

## How to avoid the trade war

If trade wars escalate further, global stock markets will suffer. There will be few places to hide. Right now, you should take a very close look at your holdings, identifying areas of excess risk.

Take **Enbridge Inc** ([TSX:ENB](#))([NYSE:ENB](#)), for example. This is a fantastic business. It has delivered double-digit annual gains for decades. A trade war, however, would be a heavy headwind, as the business is partially reliant on Canadian energy production. If the U.S. bars oil imports in favour of domestic production, Enbridge could immediately swing to a loss.

**Air Canada** ([TSX:AC](#)) is another clear example. The coronavirus pandemic sent passenger traffic 95% lower. Last quarter, the company posted a \$1 billion [loss](#). More losses are on the way.

Air Canada executives have largely blamed border and travel restrictions for the poor results. A recent poll found that 85% of Canadians wish to see these restrictions remain through the end of the year. If a trade war begins, the economic hit on airlines would only worsen.

There are some stocks that could actually *gain* in value during a trade war. The vast majority, however, will lose value. Now is the time to prepare you portfolio for what could be a prolonged period of pain.

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