



Is an Electric Vehicle Stock Sell-off Coming This Fall?

Description

A rising tide that lifts all boats? Not quite. The electric vehicle space is evolving somewhat unevenly. This week on the markets, investors have been given a taste of the disruption that could characterize electric vehicle stock performance.

Buy auto stocks or miners?

Magna International ([TSX:MG](#))([NYSE:MGA](#)) has been fairly flat for the week. Considering the uncertainty in the markets, though, this is perhaps no bad thing. While Magna isn't revving up for growth just yet, its flat year-on-year performance has at least offered shelter from the economic storm brewed by the pandemic. A 3% yield has so far been protected by the buffeting winds of market volatility, and provides reason enough to buy.

But longer-term investors looking for multi-year capital gains also have a solid pick when it comes to Magna's [electric vehicle growth exposure](#). A P/B ratio of 1.6 times book still offers a fairly good starting point. Magna's revenue is mostly split between North America and Europe, though Magna has also been making in-roads in the electric vehicles space in Asia.

Then there's the commodities aspect, with miners such as **Lithium Americas** ([TSX:LAC](#))([NYSE:LAC](#)) remaining sound picks for access to metal price increases. Lithium Americas is a high momentum play. Up +300% in 12 months, the silver metal miner is a popular play for electric vehicle bulls. Lithium Americas has appreciated by 41% in the last four weeks alone.

Worrisome volatility in the EV space

But while Magna has remained a low volatility pick, other names have been less lucky of late. **Tesla** is seeing a pullback this month. While its year-on-year share price gains are a staggering +760%, the last four weeks have tipped Tesla into the red, making this a good time for Tesla bulls to add to a position. Similarly, Lithium Americas has tumbled 16% in five days, opening up an attractive value opportunity.

But could these sudden U-turns be a sign of something worse to come? One big thing could be about to slam a roadblock across the upward momentum of electric vehicle stocks. In short, investors could be pricing in a democrat win. Shareholders overlooking the disruption potential of the upcoming U.S. election do so at their peril. Whichever direction the American electorate chooses to take our biggest trade partner in the polls, high volatility is surely on the way.

But auto and green power stocks are especially vulnerable to this election. In fact, electric vehicles form an intersection of two industries that are becoming rapidly politicized. Auto investors may feel that a democrat in the White House will be [beneficial to the auto trade](#). In addition, the green credentials of the Biden campaign are well publicized.

The danger here could come from the extent to which the electric vehicle bull thesis is underpinned by expectations of a Democrat win. Should the Republicans hold onto power this November, share prices in this space could be thrown suddenly into reverse. Tesla and Lithium Americas have already retreated recently. However, this could be just the tip of the iceberg if investors get spooked next month.

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