

Wall Street keeps eye on NAFTA and auto stocks

By Susan Tompor (excerpt)
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Car stocks — much like the march to Dow 26,000 — chugged along at a pretty good clip since summer. But while the Dow is clearly euphoric, a better term to describe auto stocks would be on edge.

"Analysts, it's like they're waiting for the other shoe to drop," said David Kudla, CEO for Mainstay Capital Management based in Grand Blanc.

The list of worries isn't endless but it includes some stumpers:

NAFTA — will there be trouble ahead? Will President Donald Trump one day announce that the United States will pull out of the North American Free Trade Agreement? Are we looking at rhetoric? Or a chance that somehow things spiral to a place where big tariffs get slapped onto pickups and cars, driving up costs for companies and consumers?...

...Auto stocks still risk selling off heavily on fears about the U.S. consumer and the economic outlook.

"Analysts become very worried once we see peak auto and we're on the backside," Kudla said.

Ford Motor stock — which saw a 19.75% gain in six months from June 16, 2017, to Jan. 16 — fell 7% last Wednesday to close at \$12.18 a share on warnings that the company's earnings for 2017 would come in lower than expected when reported Jan. 24.

Kudla differs from some pessimistic analysts and maintains that the one-day drop in Ford's stock price was likely an overreaction.

"Ford's guidance wasn't incredibly weak," Kudla said.

But the reaction to Ford's news indicates how much on edge Wall Street can be when it comes to auto stocks, Kudla said. The one-day fall came on the same day that the Dow gained 322 points, or 1.25%, to break through the 26,000 mark for the first time and close at a record 26,115.65 points.

"The double jeopardy for the auto industry is where are we in the auto cycle and the secular change in the auto industry," Kudla said.

Automakers will benefit from federal tax reform, which included reducing the corporate tax rate from 35% to 21% beginning in 2018.

At the same time, though, it's clear that a lot is unclear about how automakers will make money in the long term in a new era of self-driving cars when some say they could sell fewer highly profitable trucks and SUVs to individuals. Down the line, Kudla said, it's unlikely that you'd ever see a peak year of 17.5 million cars and trucks sold like we saw in 2016 as more self-driving vehicles hit the road.

"It's a disruptive technology," Kudla said. "It's going to be a commodity. Even if you're a major player in that industry, how does it compare to what you were making on a Chevy Silverado and a Cadillac Escalade?"...

...But Wall Street will be watching news on NAFTA — as well as any hiccups in earnings or economic forecasts — in the coming months to better predict just where auto stocks are headed in 2018.