



## Why a Trump Victory Will Be Good for Gold

### Description

One of the most controversial U.S. presidential elections is only days away, and Trump's promises to tear up trade agreements, slash foreign aid, and reduce external military spending have triggered alarms bells in a global economy already fraught with a wide range of economic and geopolitical fissures.

These and other inward-looking policies, according to many analysts, pose a dire threat to the U.S. economy and could easily cause U.S. economic fundamentals to deteriorate and the U.S. dollar to decline. This would be a boon for gold because of its status as the ultimate safe-haven asset during times of economic and political crisis.

### Now what?

Some analysts have predicted that if Trump wins the tightly contested presidential race, gold could spike by as much as 40% from today's prices and eventually top out at about US\$1,850 per ounce. While it is difficult to determine who will be the victor, it is creating considerable fear among financial markets.

On top of this political doubt, there are also the ongoing worries over the economic health of the Eurozone, fears of a China debt bubble, and sluggish growth among many emerging economies, all of which have left investors fearful of another economic crisis.

These factors make it important for investors to hedge against risk by adding gold to their portfolios. While many investors will look to bullion or a bullion-linked ETF as the best means of gaining this exposure, it's the gold miners that offer some of the best potential upside.

You see, they give investors levered exposure to gold, meaning that a marked increase in gold will trigger a monumental rally that could easily propel them to new heights. In fact, a Trump presidency would trigger a massive rally among gold miners that could easily eclipse that experienced in the wake of the Brexit.

One of the best gold miners is **Goldcorp Inc.** (TSX:G)(NYSE:GG). Unlike other miners, including **Barrick Gold Corp.**

, it did not experience the same rally which propelled Barrick over 150% for the year to date.

Instead, it only gained 38% because of market concerns over its poor second-quarter 2016 results, in which earnings dropped sharply because of declining ore grades and operational outages. While there are signs from its third-quarter 2016 results that some of those issues have continued, particularly at its flagship Peñasquito mine in Mexico, Goldcorp remains on track to meet its full-year guidance.

There are also indications of improving ore grades at Peñasquito, which will boost Goldcorp's gold output, allowing it to take advantage of higher gold prices.

If Trump wins the presidency, it will create a further benefit to Goldcorp: a substantially weaker Mexican peso.

This would cause operating costs at Peñasquito to drop significantly, making the mine even more profitable. Because Peñasquito is Goldcorp's single-largest producing mine—responsible for almost a third of its gold output—higher gold prices, increased gold production, and lower costs would give its earnings a healthy bump.

### **So what?**

It is becoming increasingly difficult to predict the outlook for gold, but what is certain is that significant ongoing political and economic insecurity is helping to underpin the price of the lustrous yellow metal. Until there is a significant improvement in the global outlook, it makes sense for investors to hedge against the risks facing their portfolios by obtaining exposure to gold via an investment in Goldcorp, which is one of the most attractively priced miners.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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