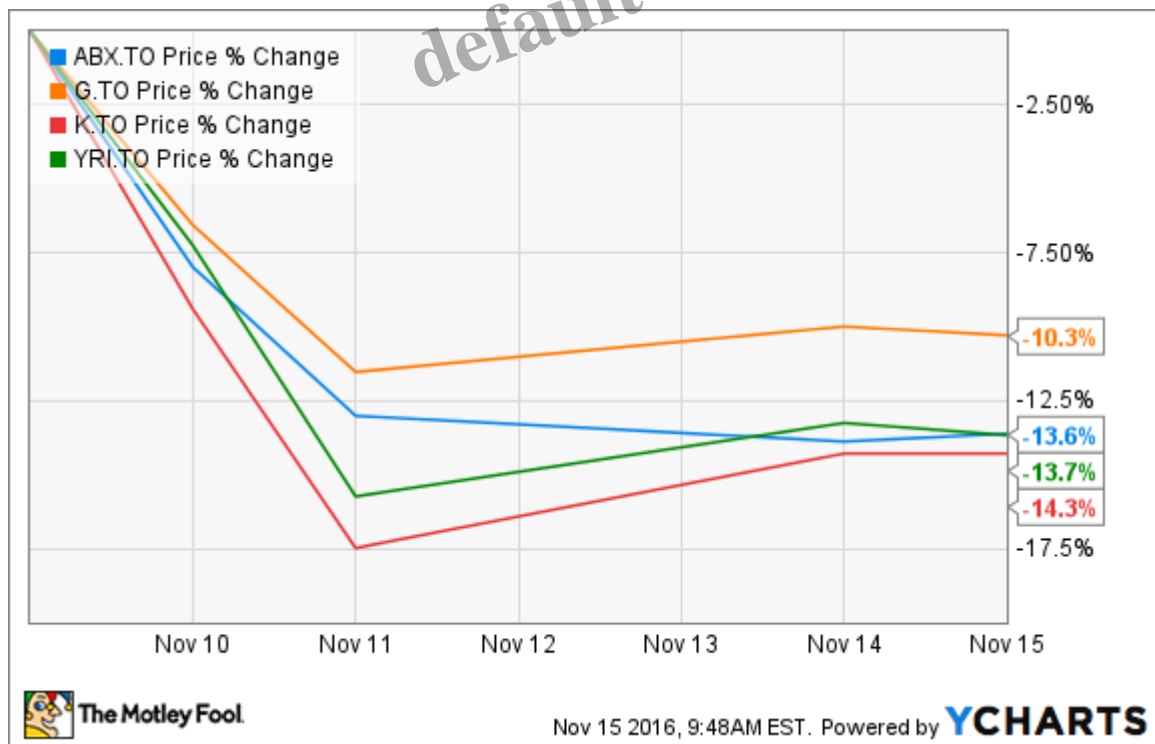




Are Gold Stocks About to Plunge Under Donald Trump's Presidency?

Description

When Donald Trump was announced president-elect last week, nearly every analyst expected the stock markets to plunge, and gold to surge. Gold prices are hitting five-month lows as of this writing. With that, gold stocks such as **Barrick Gold Corp.** ([TSX:ABX](#))([NYSE:ABX](#)), **Goldcorp Inc.** ([TSX:G](#))([NYSE:GG](#)), **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)), and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) have all plunged double-digits within a week.



What's going on, and where are gold stocks headed from here?

Why are gold prices and stocks falling?

Trump's victory came as a shocker, and, for a brief period, the stock markets fell the following day as investors projected heightened uncertainty in the U.S. economy thanks to some of Trump's dubious campaign promises, such as the wall on the U.S.-Mexico border, and repealing of climate change regulations.

As gold is considered a safe haven during periods of uncertainty, gold stocks opened with a big gap up the morning of November 9, with some, like Barrick and Goldcorp, even gaining double-digit percentages. The euphoria was short-lived, and gold stocks have dropped steadily since.

Trump's pragmatic victory speech helped people absorb the shock of his victory. He reiterated his plans to rebuild America's infrastructure, fueling optimism among investors in key industries like construction, steel, and heavy machinery. Trump's victory is also seen to boost pharma and biotech companies, coal miners, and banks thanks to his plans to revive the coal industry, ease banking, and replace Obamacare regulations. Naturally, investors are dumping gold and are piling in to stocks seen to benefit under Trump's presidency.

But there's a bigger reason why gold is falling: there's a potential Fed rate hike in December backed by strong economic data and expected greater fiscal spending. A higher interest rate [is a headwind for gold](#) and gold stocks in general.

Should you sell gold stocks now?

Things are far too complicated than they appear, simply because no one really knows what's in store. If Trump withdraws the U.S. from NAFTA or backs out of some of campaign promises, gold could bounce back just as quickly. And don't forget that Brexit woes are far from over. In other words, there are too many ifs and buts in play right now, and that's exactly the kind of trap prudent investors should avoid.

I wouldn't recommend selling gold stocks right now for two reasons.

There's huge uncertainty, and gold fundamentals haven't really changed yet. Most of the gold miners are now focusing on cutting costs to boost margins, so they're better positioned to weather any volatility in gold prices.

Barrick, for instance, says it can be free cash flow positive at gold prices as low as US\$1,000 per ounce. Goldcorp believes its cash flows are "more than sufficient" to fund debt, growth, and dividends. Kinross is banking on its liquidity worth US\$2.2 billion to drive organic growth in the near future, while Yamana is betting on its Cerro Moro and Canadian Malartic mines—to be operational in 2018—to accelerate growth.

In short, gold miners have their plans in place. Gold stocks might fall if gold prices weaken, but as long as you know you're buying fundamentally strong businesses and are willing to stomach the volatility, you needn't dump gold due to fears of Trump.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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TICKERS GLOBAL

1. NASDAQ:RGLD (Royal Gold, Inc.)
2. NYSE:AUY (Yamana Gold)
3. NYSE:B (Barrick Mining)
4. NYSE:KGC (Kinross Gold Corporation)
5. TSX:ABX (Barrick Mining)
6. TSX:K (Kinross Gold Corporation)
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