Gold Stocks Are Soaring: What's the Scoop?

Description

Gold producers are rising again, and investors who have been on the sidelines, waiting for an opportunity to buy, are wondering if this is the right time to put some money in the sector.

Let's take a look at the current situation to see if the latest surge might have legs.

Trump effect

Gold was under pressure in the months leading up to the U.S. election. The Trump win contributed to the slide.

This wasn't supposed to happen, but investors shrugged off worries that Trump's policies could destabilize global markets and instead decided to focus on his plan to boost infrastructure spending.

As a result, money fled bonds and piled into equities on the anticipation of stronger growth in the U.S., which can be negative for gold because it pushes up expectations for rate hikes and fuels a stronger U.S. dollar.

Higher rates increase the opportunity cost of holding non-yielding assets such as gold, and a rising dollar makes the metal more expensive for holders of other currencies.

Why the latest reversal?

In recent days, it appears the market is starting to reevaluate its Trump optimism.

The president-elect continues to signal that his administration is on a collision course with China over trade and currency policies, and that might be making investors nervous.

Trump is also planning to renegotiate or cancel existing trade agreements. If he follows through on the tough rhetoric, global markets could be in for a rough ride. This would be positive for gold, which often serves as a safe-haven asset.

Fed effect

The U.S. Federal Reserve raised its target interest rate in December and said it expects to make three moves to the upside in 2017. That put pressure on gold in recent weeks, but weaker-than-expected economic data released December 29 now has the market wondering if 2017 might turn out to be a repeat of 2016, where the Fed starts the year with grand ambitions and then simply sits on its hands.

Europe effect

Italy has a banking crisis on its hands, and the world appears to be oblivious to the potential impact on European and global markets if things unwind the wrong way.

What’s up?

The Italian government is being forced to bail out the country’s third-largest (and world’s oldest) bank after investors refused to back a reorganization plan. To make matters worse, several other Italian banks could suffer the same fate. In fact, the problem is so bad the Italian government just set up a fund containing €20 billion to help stabilize the group.

With the Italian government in a mess after the recent referendum “no” vote and subsequent resignation by the prime minister, the whole situation is precarious at best.

If Italians are forced to vote in 2017, the people might decide they have had it with the euro or even the European Union and vote for the euroskeptical Five Star Movement, which won 25% of the vote in the 2013 election.

On top of this, 2017 will see national elections in France and Germany. People are already discussing a Frexit, and Angela Merkel could be toppled by the refugee crisis.

At the very least, the coming year promises to be an interesting one in Europe.

Should you buy gold stocks?

The latest surge might fizzle out in the next week or two, so investors should be careful about putting too much money into the sector.

However, if you are a gold bull and think the current rally has legs, this might be a good time to add the miners to your portfolio.

One option is to use an ETF such as the **iShares S&P TSX Global Gold Index Fund** (TSX:XGD) to get exposure to the group.

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aswalker