3 Reasons Why Gold Will Rally During 2017

Description

Gold has gyrated wildly over the last year, rising and falling violently as pessimism and optimism ebbed and flowed through global financial markets. Even the much-touted Trump-induced rally didn't eventuate when he won the presidential election. Instead, equity markets surged and gold waned because of an outpouring of optimism over the outlook for the economy.

Despite equities surging to new highs, there are signs that gold is on the cusp of enjoying a resurgence.

Now what?

Firstly, there is rising concern over the true state of the economy.

There are fears of a European banking crisis, and China's massive trillion-dollar credit bubble and weaker than expected corporate earnings all point to the economy not being as healthy as expected. In conjunction with a range of geopolitical fissures, such as the looming Brexit and rising political extremism in Europe, these factors have the potential to trigger another financial crisis.

Because of gold's status as a safe-haven asset, it will become an increasingly attractive hedge against uncertainty as these issues play out over the course of 2017.

Secondly, there are growing fears that Trump will be unable to unleash the full range of fiscal stimulus promised.

Some economists believe that Trump's fiscal stimulus will consist solely of tax cuts for the wealthy and corporations. It's thought that because of budget constraints, he won't be able to implement the promised massive spending on infrastructure that has been a key driver of the optimism surrounding the economy. While, over the short term, this will drive increased investment in equity markets, the long-term effect will be detrimental for the economy, increasing the attractiveness of gold as an investment.

Finally, there are growing supply constraints.

Sharply weaker gold prices since the end of the 2011 bull market have triggered a marked decline in investment in the gold-mining industry, particularly in exploration and development.

In fact, many gold miners have focused on cost cutting and divestment of non-core assets as the means of surviving the protracted slump in gold. This means fewer projects are under development, increasing the likelihood that there will be a supply squeeze should demand for the lustrous yellow metal rise.

So what?

Clearly, all is not as rosy as the post-Trump equity rally would have investors believe. This bodes well for a recovery in gold prices as the optimism fueling equity markets declines over the course of 2017. It also makes gold an increasingly attractive investment because of its widely accepted status as a safe-haven asset and hedge against geopolitical and economic crisis.

One of the most best means of gaining exposure to gold is by investing in precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW), which generates just over half of its net earnings from gold and the remainder from silver. Not only is it a lower-risk option than the miners because it doesn't engage in costly mining activities, but it also offers leveraged exposure to the price of gold, creating the opportunity for greater returns than investing in gold bullion or an ETF.

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