



Gold Investors: What's Driving the Yellow Metal Higher?

Description

Gold is catching a tailwind right now, and investors are trying to figure out if the latest surge is just a head fake or the start of strong rally.

Let's take a look at some of the reasons for the upswing and see if they are giving investors a buy signal.

Trump reversal

Gold initially extended its late-2016 losses after the U.S. election, but the mood started to shift in the middle of December, and there appears to be an interesting battle going on in the markets.

The Dow and Nasdaq just hit new record highs as investors bet President Trump's economic policies will drive stronger U.S. domestic growth.

At the same time, money is also heading back into gold on fears his other policies could rattle the markets.

Which move is right? Maybe both.

President Trump's infrastructure spending plan could certainly provide a nice boost to the U.S. economy. If he also succeeds in forcing many of the country's largest companies to bring manufacturing back to the United States, the job market could get additional support.

On the flip side, Trump is digging in his heels on the recent travel ban, and concerns are still building over his aggressiveness towards key trading partners.

These issues could simply settle down in the coming weeks and remove some of the support for gold, or they might drag on and trigger a larger move into safe-haven assets.

What about Europe?

The American president is dominating the headlines, but investors might want to start paying closer

attention to Europe.

Brexit is setting up to be an ugly process, Italy's banks are a mess, and elections in France and the Netherlands could produce results that completely destabilize the E.U. as well as financial markets.

The most interesting situation to watch right now is the election in France.

Why?

Developments in recent days are pointing to a possible result that nobody saw coming.

The early favourite, right-wing candidate Francois Fillon, is mired in a scandal connected to payments he made to his wife for an alleged fake job.

As a result, the contest is shaping up to be a battle between Marine Le Pen, the leader of the far-right Front National party, and independent centrist Emmanuel Macron.

Assuming Le Pen and Macron make it through the first vote to the final runoff, anything could happen.

If Le Pen wins, investors should hold on to their hats, at least in the short term, because the populist candidate has vowed to remove France from the Eurozone and wants to hold a referendum on the country's E.U. membership.

What should investors do?

All of this sounds like the end of the world, and one would think gold could be setting up for a major rally. That could happen, but as we saw in the wake of the Brexit vote, markets might simply shrug off any major shocks.

On top of this, any indication that the U.S. Fed remains committed to raising rates three times in 2017 would probably keep a lid on a gold rally.

So, I wouldn't back up the gold truck just yet, but if you are a bullion bull, there might be an opportunity right now to pick up some sector exposure, and **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) is probably a good place to start among the miners.

The company is making solid progress on its turnaround efforts and has all-in sustaining costs close to US\$750 per ounce, which means Barrick is a low-cost producer generating strong margins at current prices.

If gold rallies, Barrick's massive production base sets it up for a potential flood of free cash flow.

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