



Silver Wheaton Corp.: Is Another Big Rally on the Way?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is down about 30% from its 2016 high, and investors are wondering if the stock can recover the lost ground in the coming months.

Let's take a look at the current situation to see if Silver Wheaton should be in your portfolio.

Gold and silver market

Silver Wheaton makes its money selling gold and silver, so the stock is at the mercy of the whims of the precious metals markets.

Last year we saw the metals rally strongly through the first half of the year, and then reverse course heading into the end of 2017.

What happened?

Entering 2016, analysts expected the U.S. Federal Reserve to raise interest rates four times. As the year unfolded, the Fed decided to sit on its hands, and that provided support for gold and silver.

Geo-political threats also sent money into safe-haven assets, especially leading up to the Brexit vote.

When the U.K. surprised the world with its decision to leave the E.U., most people figured gold and silver would rally, but the opposite happened. Investors shrugged off the Brexit and began to set their sights on the Fed again heading into 2017.

The U.S. election provided another surprise, both in the result and the market's reaction.

Pundits thought a Trump election win would send gold soaring and cause a sell-off in equity markets, but that's not what happened. American stocks took off, and the precious metals saw their pullback extend through the middle of December.

Since then, gold and silver have started to recover, and investors are wondering if the surge can continue.

Outlook for 2017

Once again, all eyes are on the Fed; markets anticipate three rate hikes by the end of the year. If the Fed follows through, the precious metals might have trouble moving much higher.

However, if the Fed repeats the 2016 performance and holds back, we could see the recent gains pick up steam.

On the fear side of the trade, President Trump is rattling some investor nerves with his aggressiveness towards China. Last week he called the country a currency manipulator, which isn't likely to improve relations.

If that situation heats up in the coming weeks or months, investors could start moving more money into safe-haven assets, which would be positive for gold.

While this is going on, the U.K. is preparing to launch its exit negotiations with the E.U. Some pundits are expecting an ugly divorce, which could disrupt financial markets.

In addition, Italy's banks are a mess, and France might be on the verge of electing a new president who wants to leave the euro and hold a referendum on E.U. membership.

So, there are several situations to watch in the near term. If one goes sideways in a big way, gold and silver could pick up a nice tailwind, and Silver Wheaton would definitely benefit.

Appeal of Silver Wheaton

Silver Wheaton is an attractive way to play rising precious metals prices. You get all of the benefits of owning a producer without taking on the direct operational risks faced by the mining companies.

Why?

Silver Wheaton doesn't actually own mines; it simply provides mining companies with upfront cash to help them move the projects from development to production. Most of the sites are set up to produce base metals, such as copper or zinc.

In return for the cash infusion, Silver Wheaton secures the right to buy gold or silver by-product from the mine at reduced prices. The company then sells the metals and pockets the margin.

Should you buy?

If you believe the Fed is going to be less aggressive than expected this year and think there might be a shock coming in the financial markets, it might be a good idea to have some gold and silver exposure.

I wouldn't back up the truck, just in case markets decide to ignore any turmoil, but Silver Wheaton is an attractive pick if you want an easy way to play the sector.

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