



Gold Investors: Where Are We Headed Next?

Description

Gold is pulling back after flirting with US\$1,300 an ounce, and investors are wondering if the run is done, or simply taking a breather.

Let's take a look at the current situation to see if gold stocks should be in your portfolio right now.

Trump effect

President Trump continues to have an impact on the gold market, and his influence could start to pick up steam.

Gold was expected to rally in the wake of the Trump election win, but the opposite happened, at least in the first few weeks.

Rather than fleeing to safe-haven assets, investors dumped gold and dove into the equity market, hoping to benefit from a big infrastructure boom.

By the middle of December, sentiment started to shift, and gold began to pick up some support. Stocks have continued to rally, but money has also been looking for a place to hide amid geopolitical uncertainty.

Trump's harsh rhetoric towards China initially had the market concerned, but that has cooled off.

Now, the recent military strikes in Syria and Afghanistan are keeping investors nervous, as is the tense situation with North Korea.

Europe

Trump remains a wildcard, but Europe might be a larger risk to financial markets in the near term.

Why?

France goes to the polls this weekend in an election that is completely up for grabs.

With four candidates involved in a tight race, there is a chance the runoff vote could end up being between a far right candidate, Marine Le Pen, who is anti-euro and willing to have a referendum on E.U. membership, and a far left candidate, Jean-Luc Méchelon, who is backed by the communist party.

If these two candidates end up fighting it out for the win, gold could get a boost.

In addition, Brexit is formally underway, and some pundits feel the process could get ugly over the course of the next two years.

To round things out, Italy's banks are still a mess. The situation has taken a back seat in the minds of investors, but it still has the potential to upset the European financial system.

Fed headwinds

Interest rate increases in the United States remain a headwind for gold prices.

Why?

Rising rates tend to put upward pressure on the U.S. dollar, in which gold is priced. This makes the yellow metal more expensive for holders of other currencies. Higher interest rates also increase the opportunity cost of holding gold, which doesn't offer any yield.

The Fed raised its target rate in March, as expected, and two more increases are likely in the cards this year.

The bottom line

As always, anything can happen in the geopolitical sphere, and investors should brace for more volatility in the gold space.

Geopolitical shocks might create short-term surges for gold, but the Fed headwind should not be underestimated, and any hint that rate increases might occur faster than anticipated would be negative for the precious metals.

As such, I would keep gold exposure as a small position in your overall portfolio.

If you believe gold is in the early stages of a broader recovery and are looking to buy a mining stock, **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) deserves to be on your radar.

The company is the largest producer in the sector and has done a good job of reducing debt and lowering production costs. Generating solid free cash flow is a core focus for management now, and Barrick just raised its dividend.

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