



Gold Rally: Time to Buy Barrick Gold Corp.?

Description

Gold continues to move higher, and investors are wondering which stocks in the sector offer the potential for some big gains.

Let's take a look at the current market situation to see if **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) deserves to be in your portfolio.

Gold market

Safe-haven demand and changing interest rates are the primary movers of the price of gold, and both are playing a role in the latest rally.

How?

Global financial and geopolitical instability can often drive gold higher, as investors look for safe places to park their money. In recent years, however, the market has become much more resistant to big events.

For example, gold traders shrugged off the Brexit vote last year, and the market is pretty much oblivious to the Italian banking crisis or the debt situation in China.

Geopolitical tensions haven't moved the needle much either, but that might begin to change.

Why?

North Korea's nuclear threat is starting to get more attention, and the strong rhetoric coming out of Washington is making investors nervous.

In the past, these situations simply flared up and then quickly calmed down, and everyone went back to business, but the unpredictability of President Trump could escalate the issue beyond any point we have seen with prior administrations.

If things really get ugly, gold could move significantly higher.

What about interest rates?

Rising interest rates tend to be negative for gold because they increase the opportunity cost of holding the non-yielding asset.

The U.S. Federal Reserve already raised interest rates twice this year, and the original call was for three moves to the upside in 2017. Gold sold off after the June increase, but the metal is recovering some ground on reduced expectations for a third rate hike in 2017.

If the market starts to believe the Fed will slow down its tightening process, gold could get an additional boost.

Should you buy Barrick?

The company is making good progress on its efforts to reduce debt, and operating costs are also improving.

In fact, the debt load has come down from US\$13 billion in early 2015 to below US\$8 billion, and management plans to get the number down to US\$5 billion in the next couple of years.

Barrick is the world's largest gold producer, so a big jump in gold prices can have a significant impact on margins and boost free cash flow.

If you think gold is headed higher, Barrick probably deserves to be on your buy list.

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