Rising Interest Rates and Geopolitical Tensions Won't Matter if You Own This Market Hedge

Description

Last month, the Bank of Canada announced it was raising interest rates for the first time since September 2010. Although the rate increase was a modest 25 basis points, or one-quarter of a percent, it signals a policy shift for Canada's central bankers.

Despite that the bank has left interest rates near all-time lows for nearly seven years now, there have been many stern warnings that, eventually, rates would need to "normalize." In fact, there was a very good chance that the Bank of Canada would have raised rates back in 2015 to cool off a hot housing market were it not for the imminent collapse in the price of oil.

Now that oil and commodity prices seem to have recovered (though they have not returned to their previous levels), the Bank of Canada is comfortable enough that now is the time to move.

What are the implications?

Higher interest rates effectively increase the cost of borrowing and make access to capital more restrictive.

This has a direct effect on the capital markets — most notably, the stock market.

For one, higher interest rates mean higher consumer payments on mortgages and other household debt, leaving less income available for savings that can be directed to investments in the stock market.

Not to mention investors who borrow money on credit to invest in stocks. Higher rates effectively lower the expected return for speculators who pursue that type of proposition.

Even the companies listed on the stock market are affected, as they too are faced with a higher cost of borrowing that negatively impacts their ability to invest in future production.

None of this is good for investors and suggests the stock market could be headed for a correction.

Thankfully, there's something you can do about it

Interestingly, there is but about one asset class that has a negative correlation with the stock market: gold.

A negative correlation implies that when the stock market suffers a decline, historically, at least, gold appreciates in value.

This is good news for stocks such as **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), **Goldcorp Inc.** (TSX:G)(NYSE:GG), **Kirkland Lake Gold Ltd.** (TSX:KL), and **Detour Gold Corporation** (TSX:DGC), to name but just a few of the front-runners for this type of trade.

What's more, gold bullion has shown signs of strength this year; it's up 9.6%, and even going back to when prices bottomed out in late 2015, the commodity is up 19%.

And now with geopolitical tensions on the rise, this only adds fuel to the fire supporting gold as a "store of value," especially when there is a "flight to safety" within the capital markets.

Conclusion

Whether its geopolitical tensions between the U.S. and North Korea, a brewing trade war between China and the U.S., or a general rise in interest rates that causes the stock market to nosedive, many investors will be careful to make sure that they have at least a nominal interest in the precious metal.

It needn't matter which direction the stock market is headed — when you think *Foolishly*, there are always profits to be made.

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jphillips