How Will Forecasted Stronger Global Growth Affect Gold Stocks?

Description

Earlier this month, the International Monetary Fund (IMF), one the world’s leading financial institutions, announced that it was raising its forecast for global economic growth for the remainder of 2017 and into 2018.

Globally, the IMF is now forecasting growth of 3.6% in 2017, improving to 3.7% in 2018. That compares favourably to the global growth of 3.2% achieved in 2016.

The agency said that it is seeing stronger than anticipated growth in Europe, Japan, and emerging Asian markets, which more than offset slower than expected growth in the U.S. and U.K.

But while the U.K. is still sorting through the fallout from Brexit, there are encouraging signs that things could be getting better in the U.S. soon, too.

In a recent interview with IMF chief Christine Lagarde, the United States Secretary of the Treasury Steve Mnuchin suggested that the U.S. is “well positioned for growth” and that he could see U.S. GDP approach 3% in the near future.

Stronger U.S. growth would only help to fuel international markets and broader economic growth, as it’s well accepted that the U.S. economy drives much of the world economy.

Where does this leave gold stocks?

As the summer drew to a close, much of the narrative within the markets was on elevated asset prices and a diminished outlook for returns across most asset classes. Naturally, that had investors nervous and looking for a safe place to park their money. Gold, long viewed as a “safe haven” asset, did well as a result.

Between the second week of July and the first week of September, the spot price of gold bullion appreciated by as much as 12%. Yet since then, gold has cooled off and given up much of those gains as sentiment in the market has become more bullish. This can be seen most easily in the bond markets, as yields have risen sharply just as gold has declined.

The increase in yields can be associated with expectations for stronger growth and higher interest rates needed to curb inflationary pressures.

So, while asset prices remain elevated, the “safe haven” play appears to be off for now, while the market returns to more of a “risk off” mode.

Despite that gold, as of late, has been “off again and on again,” this hasn’t slowed the performance of smaller gold producer, **Kirkland Lake Gold Ltd.** (TSX:KL)(NYSE:KL), which has seen its share price climb from $7 at the start of the year to over $16 now for a very impressive 134% return in 10 months.

Kirkland is outpacing the market on the back of record gold production in the third quarter — a 23% increase over the second quarter of this year and a 135% improvement over the year-ago period.

Meanwhile, larger incumbents like **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) have lagged behind; both stocks are flat to down for the year.

Bottom line

A look at the charts suggests that the price of gold bullion could be range bound for the foreseeable future now that the market has returned to focusing on growth rather than on more bearish scenarios.

This means that investors may be better off looking for ways to take advantage of those opportunities offering above-average growth, like, for example, companies with exposure to artificial intelligence such as **NVIDIA Corporation** (NASDAQ:NVDA) and **Alphabet Inc.** (NASDAQ:GOOG)(NASDAQ:GOOGL) or companies attempting to disrupt established markets, like **Tesla Inc.** (NASDAQ:TSLA) with its electric, self-driving cars.

Meanwhile, it’s advisable that most investors allocate a small portion of their portfolios to gold to protect themselves from the consequences of an undesirable geopolitical event or unanticipated spike in volatility.

Companies like Barrick Gold and Goldcorp would be best suited for this approach, while Kirkland Lake, offering above-market returns, also carries with it heightened risk owing to its smaller scale, which could become a factor if the market suddenly became more risk averse again.

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jphillips