



The Case for Gold and Silver Stocks Heading Into 2018

Description

Shares of **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) fell 1.2% on November 17. The stock has fallen 16.3% in 2017 and 13% year over year. And the company's chief executive officer and chief financial officer departed its **Acacia Mining** subsidiary.

Yamana Gold Corp. ([TSX:YRI](#))(NYSE:AUY) stock has dropped 8.7% in 2017 and 17% year over year. This is in spite of decent quarterly performance and a ramping up of copper production to keep up with the stampeding bull market.

Top silver producer **Silvercorp Metals Inc.** ([TSX:SVM](#))(NYSE:SVM) has been mostly flat in 2017.

The spot prices for gold and silver have continued to show weakness since coming off a late summer surge. I recently [covered](#) the cryptocurrency phenomenon and whether or not investments like Bitcoin have lured investors who would have previously turned to precious metals.

However, there are still some reasons for gold and silver bulls to be optimistic as we look ahead to 2018. There are key areas that could rattle investors and spark a run to safe havens.

An aging U.S. bull market

The S&P 500 has experienced the second-longest bull market in its history, failing to record a 20% drop or more since 2009. Concerns over overly high asset valuations have persisted for several years now among a myriad of prognosticators. The election of Donald Trump brought about a flurry of speculation in U.S. markets. The promise of U.S. tax reform and a massive infrastructure spending plan have investors salivating over the future growth potential of these policies.

U.S. consumer confidence jumped to its highest level post-2000 in a late October report. Successive jobs numbers remain at the same strength seen during the Obama era, apart from a lower report following the devastation of Hurricanes Harvey, Irma, and Maria. For the past two quarters, U.S. GDP has grown at a 3% clip. The U.S. economy is showing strength across the board.

Rising geopolitical tensions

Gold and silver saw a boost as North Korea and the U.S. traded threats in the summer. Leaders from the two countries have continued to exchange barbs in statements, but tensions appear to have dissipated in recent months. However, geopolitical conflicts in the Middle East have started to flare up heading into 2018.

Saudi Arabian crown prince Mohammed bin Salman has moved to rearrange the power structure within his state under the pretense of economic “reform.” More concerning is the ongoing escalation of hostilities between Saudi Arabia and Iran. The power struggle between both has been felt in destructive conflicts in Iraq, Syria, and Yemen. The move to consolidate power by the upstart Saudi Arabian crown prince could ignite a geopolitical firestorm in a region already mired in conflict.

The showdown over U.S. tax reform

In a recent article, I discussed whether or not [U.S. tax reform could deal further damage to gold stocks](#). The Republican Party, which controls the House, the Senate, and the Executive branches of U.S. government, appears to be at an impasse that could derail what has become the signature legislative push for the Trump administration.

Disagreements have broken out over the fate of the estate tax, with the Senate plan looking to retain it, while the House plan moved to scrap it altogether. A cap on mortgage interest deductions has also stirred internal disagreements, as key real estate and building lobbyists have pressured Senate Republicans to avoid the deduction reduction.

The key point, a reduction in the corporate tax rate from 35% to 20%, remains in both plans. There is little doubt that a derailment for the plan would have major implications for the stock market. Treasury Secretary Steven Mnuchin alluded to this in a recent interview. “There is no question that the rally in the stock market has baked in to it reasonably high expectations of us getting tax cuts and tax reform done,” he said.

If tax reform is tripped up or fails to meet the lofty expectations of growth generation this administration has placed upon it, gold and silver could experience a resurgence in 2018.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:SVM (Silvercorp Metals Inc.)
5. TSX:YRI (Yamana Gold)

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