



Should You Bail on Gold and Silver Stocks Before the New Year?

Description

The clock is now ticking on U.S. tax reform after U.S. Treasury Secretary Steven Mnuchin stated that he hoped to see it pass by Christmas. **Goldman Sachs Group Inc.** veterans Mnuchin and chief economic advisor Gary Cohn have been key figures in laying out the initial blueprint. Goldman Sachs released a note on November 16 that put the odds of tax reform passing by early 2018 at 80%.

In a recent article, I'd focused on several reasons [gold and silver stocks could potentially improve on 2017 results](#). One of the prerequisites of a good early performance was tax reform failing to pass or at least yielding disappointment in its final legislative form.

Goldcorp Inc. (TSX:G)(NYSE:GG) stock has dropped 7.5% in 2017 as of close on November 21. **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) has fared even worse, falling 17.1% in 2017. **Pan American Silver Corp.** (TSX:PAAS)(NASDAQ:PAAS) has dropped 4% over the course of this year.

The spot price of gold and silver has fallen steadily since early September. The U.S. dollar has shown renewed strength with positive economic news across the board. U.S. economic growth was revised up to 3.1% in Q2 2017. Goldman Sachs projected U.S. growth to hit 4% in 2018 on the pretense that tax reform would go through.

The U.S. economy has also shown solid job growth in successive quarters; it only dropped following the hurricane devastation. Wage growth continues to disappoint, but there have been improvements in this area as well with average hourly wage growth of 2.4% year over year. This appears slight, but it's positive considering how this area has lagged in the recovery years.

The U.S. Federal Reserve is also expected to raise interest rates in December, which should propel the U.S. dollar further up as we head into 2018. Goldman Sachs is predicting four additional rate hikes in 2018. I have [covered](#) the drop of the Canadian dollar relative to U.S. dollar strength in this article.

With all of these developments converging, is the writing on the wall for precious metals equities?

The prospects for the Trump administration tallying its first legislative achievement look good right now. The Republican-controlled House was able to pass its tax reform into the full chamber in two weeks,

while the Senate moved its bill out of the Finance Committee in a week.

The speed of the proceedings demonstrates the urgency on the part of Republican lawmakers. Tax reform has been a huge focus for years. Now, in control of the executive, the House, and the Senate, at least until the 2018 midterms, everything is now on the line for the party to get it through.

When Trump was elected in November 2016, the spot price of gold and silver plunged violently, as the U.S. dollar surged. This reaction, along with the Wall Street feeding frenzy that came to be known as the “Trump Trade,” was predicated on the pro-growth promises of the administration.

Now, with the biggest prize of the pro-growth platform seemingly on the cusp of being enacted, gold and silver equities could take a significant hit.

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Date

2025/07/02

Date Created

2017/11/27

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