



Will Rising Interest Rates Weigh on Gold Equities in 2018?

Description

Markets in the United States have remained somewhat uneasy after the swearing in of the new Federal Reserve chairman Jerome Powell. Powell was somewhat tight-lipped in projecting the future course of the Fed, especially as investors look for guidance following a global stock market rout in the first half of February. The price of gold suffered the largest single-day decline on February 22 since the summer of 2017.

Gold and silver surged in late January after comments from the U.S. Treasury secretary at the World Economic Forum [appeared to back a low U.S. dollar](#). The U.S. dollar surged as the stock market demonstrated volatility in the opening weeks of February, but it has since settled. Bitcoin and other cryptocurrencies, which appeared to be [challenging precious metals as a speculative asset](#), have lost tremendous value since the mania hit its peak in December 2017. As of February 25, Bitcoin is trading below the \$10,000 mark after reaching as much as \$20,000 late last year.

What does this all mean for gold?

A rise in real bond rates has been historically bad for gold, with the U.S. 10-year real yield having an inverse relationship with the yellow metal. Powell has said that the “neutral rate” is the focus going forward, which means several more rate hikes will likely be on tap in 2018 barring significant setbacks for the U.S. economy as a whole. Of course, there is also gold’s storied position as a favourite safe haven for investors. This did not come to pass when volatility hit in early February, and the spot price of gold increased in 2017 with the U.S. stock market posting a historically impressive year.

In spite of the seemingly gloomy outlook for gold in light of a hawkish Fed, the measured and cautious approach should limit its downside in 2018. With that in mind, let’s take a look at a few gold equities to keep an eye on this year.

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)) is a Toronto-based gold producer. Yamana stock has declined 4.8% in 2018 as of close on February 23. The company released its 2017 fourth-quarter and full-year results on February 15. Yamana exceeded guidance for all of its metals in 2017, as it posted gold production of 977,316 ounces, five million ounces of silver, and 127.3 million pounds of copper.

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is a gold and copper producer also based in Toronto. Barrick stock has dropped 15.3% in 2018 thus far. The company released its 2017 fourth-quarter and full-year results on February 14. Barrick reported annual revenues of \$8.37 billion and net earnings of \$1.44 billion compared to \$655 million in 2016. It also posted gold production of 5.32 million ounces in 2017 in comparison to 5.52 million ounces in the prior year. Barrick stock offers a modest dividend of \$0.04 per share, representing a 1% dividend yield.

Investors should not be looking to rush into gold any time soon, as rising yields could deal damage to the yellow metal in the short to medium term.

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Date

2025/07/02

Date Created

2018/02/27

Author

aocallaghan

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