Gold Stocks Today: A Bargain or a Falling Knife?

Description

The spot price of gold managed to rise back above the $1,200 mark in late trading on August 21, as the dollar sunk due to comments from United States president Donald Trump. Trump has been vocal in criticizing the U.S. Federal Reserve and its rate-tightening path. The political warfare in Washington also deepened as two former members of Trump's inner circle are knee deep in criminal charges that will likely lead to prison time.

Gold prices shed roughly $200 in value since April. Geopolitical turmoil and trade tensions have failed to scare investors, as a number of key indexes have rallied into the late summer. Back in June, I'd discussed why the early summer would be crucial for gold as a summit between the U.S. and North Korea could sour investor sentiment on the safe haven.

In truth, geopolitical struggles have not played a tremendous role in gold's 2018 woes. U.S. dollar and sustained economic strength has been enough to do significant damage to the yellow metal. Should investors bet that this slide will continue, or are gold stocks buy-low candidates as we look ahead to September?

The U.S. economy appears poised to post another fantastic quarter when Q3 GDP numbers are released. The Atlanta Federal Reserve GDPNow forecast model projected GDP growth of 4.3% in Q3 on August 16. Could weakness in the U.S. dollar generate momentum for gold? As long as the economic news is rosy, it appears unlikely that Trump's rhetoric will have long-lasting impact. The U.S. Federal Reserve remains steadfast in its commitment to tighten rates in a strong economic environment.

There are still fundamentals that may be of concern to investors. Real wage growth has stagnated, breaking a brief uptick that was brandished by the Trump administration early on. A recent study published by the Economic Policy Institute (EPI) revealed that CEO compensation at the largest 350 companies in the U.S. rose 17.6% in 2017, while wages rose only 0.3% for the average worker. Persistent wage stagnation continues to be a concern for policy makers.

In the near term, the news does not appear promising for gold. However, gold does seem to have established some resistance around the $1,200 level. Investors that are betting on an overheating U.S. economy, or one powered by the short-term fix of tax reform, may want to consider jumping in soon. Here are some Canadian equities to watch.

Kinross Gold (TSX:K)(NYSE:KGC) stock has plunged 31% in 2018 as of close on August 21. Shares were hurt by production, revenues, and adjusted profits that took a dip compared to the prior year. Nonetheless, Kinross maintained its outlook for the full fiscal year.

IAMGold (TSX:IMG)(NYSE:IAG) stock has dropped 26% in 2018. Gold production and sales were also down in the second quarter compared to the prior year. Still, the company managed to boost revenue and adjusted earnings year over year.

Agnico Eagle Mines (TSX:AEM)(NYSE:AEM) stock is down 20% in 2018 so far. In the second quarter Agnico also posted lower production and saw a significant drop in reported net income. However, Agnico's cash position remains strong, and the company declared a quarterly dividend of $0.11 per share, representing a 1.1% dividend yield.

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