



Gold Near 5-Year High: Time to Buy the Miners?

Description

The recovery in gold prices continues to pick up steam, and that has investors searching the market for the best gold stocks to buy ahead of additional gains for the yellow metal.

Let's take a look at the current situation and see if this might be a good time to add gold stocks to your [portfolio](#).

Gold support

Gold currently trades near US\$1,350 per ounce, which isn't far off the five-year closing high near US\$1,380 it hit back in March 2014.

The surge over the past few months caught many analysts by surprise, but a quick look at the factors that tend to support higher gold suggest more gains could be on the way.

Brexit

The deadline for the U.K. to hammer out a deal for its exit from the European Union is fast approaching, and the market is afraid the current political chaos in the U.K. could result in a no-deal Brexit. If that scenario pans out, analysts are concerned the fallout could be dire for financial markets, and this might drive funds into safe-haven holdings, such as gold.

Italy

Italy's banking system has stabilized in recent years, but isn't out of the woods. The current government is keen on running a large budget deficit that could pose a threat to debt held by Italian banks. Market watchers are still nervous that a sharp increase in Italy's bond yields could spell trouble for the country's financial institutions, which hold about 10% of the government bonds.

U.S. and China

The ongoing trade spat between the United States and China might be the largest driver of gold buying. The two countries are trying to hammer out a trade deal, and with deadlines looming, President Trump's actions remain difficult to predict, and that adds uncertainty to the situation.

Interest rates

Gold is also impacted by moves in U.S. interest rates. Rising rates tend to make gold less attractive, as they increase the opportunity cost of owning the yellow metal, which doesn't provide any yield. Markets initially expected the U.S. Federal Reserve to raise rates three times in 2019, but that has changed in recent months, and most pundits are now anticipating one rate increase or even a pause.

Any indication that the Fed plans to sit back and evaluate for longer than expected before making another move to the upside would likely be positive for gold.

Should you buy gold stocks?

The miners continue to trade at depressed levels, despite the uptick in gold prices.

Many of the companies, including **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD), have made good progress on reducing debt and driving efficiency into their operations. Some have even raised their dividends. The recent surge in consolidation could spark additional investor interest in gold stocks. For example, Barrick Gold's recent merger with Randgold created a mining giant that owns five of the top 10 mines on the planet and was well received in the market.

Gold can be volatile, so investors should keep their exposure to a reasonable level. However, the trend in the market appears positive, and the share prices of the major players appear cheap today. If you are a long-term gold bull, this might be a good time to add the miners to your portfolio.

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Date

2025/07/26

Date Created

2019/02/20

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