



3 Reasons to Own Gold Stocks Right Now

Description

Gold has enjoyed a nice rally in recent weeks, and investors are trying to decide if the rise is another head fake before a pullback to 12-month lows or the start of a new extended rally to multi-year highs.

Let's take a look at the reasons why gold has picked up a tailwind and decide if gold stocks should be in your [portfolio](#) today.

Trade tensions

The United States and China are trying to work out a trade deal that works for both countries. The stakes are high on both sides, not just for the politicians involved, but also for the people that are relying on them to secure their economic futures.

With tariffs being implemented and others threatened, the global economy is being held hostage. China's growth rate is already slowing to levels not seen in decades, and that has negative repercussions for international markets as well as social stability in the country.

At the same time, the U.S. is threatening new tariffs on Mexican goods as a way to try to force Mexico to stem the flow of illegal migrants to the United States. A last-minute deal appears to have avoided the implementation of the tariffs that would have been set at 5% on all goods and increased monthly up to 25%, but the U.S. says the tariffs could still be put in place if Mexico fails to hold up the agreement.

All the trade chaos is a headwind for the American economy and bond markets are behaving as if a recession is on the way. This is driving funds toward gold. As [bond yields](#) fall, gold becomes more attractive due to the lower returns in alternative investment options. In effect, the opportunity cost of owning gold drops.

Geopolitical risk

Gold is also viewed as a safe haven when geopolitical threats risk destabilizing financial markets. In

recent years investors have become less sensitive to big events, but that might be changing. The U.S. and Iran could be moving closer to a military clash, and in the event things get that bad, additional military conflict in the entire Middle East could erupt.

Fragile Europe

Brexit is still undecided, and the closer we get to the extended deadline of October 31 without a deal, the more unsettled markets are likely to be, and that should support gold demand. At the same time, Italy's banks are still a mess, and while the contagion has not spread to the rest of Europe, an ugly Brexit could tip the scales.

Should you buy gold stocks?

Gold is threatening to break above its multi-year high of about US\$1,370. If it blows through that level, an extended rally could follow, especially with so much uncertainty in the global financial markets.

Sentiment could quickly reverse course on positive trade news, so I wouldn't back up the truck. However, if you are a gold bull, the miners appear cheap today.

One stock to consider would be **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD). The company now owns five of the top 10 mines on the planet and has the potential to generate significant free cash flow on higher gold prices.

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Author

aswalker

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