



Gold Hits 5-Year High: Should You Buy Gold Stocks Today?

Description

The price of gold is soaring, and the latest surge to a multi-year high has investors wondering if this is finally the time to start adding gold stocks to their [portfolios](#).

Interest rates

The U.S. Federal Reserve held its target rate steady at its latest meeting, but the central bank signaled a willingness to consider a rate cut in the near future in the event economic conditions warrant such a move.

The change in tone is very different from where the Fed and most analysts sat at this time last year. In 2018, the Fed had the pedal to the metal on rate hikes, and most pundits anticipated three additional increases in 2019. The mood started to change near the end of last year and has continued to sour through the first half of 2019.

Why?

The U.S. trade battle with China is largely to blame. The implementation of tariffs on both sides is disrupting both economies with China now looking at the slowest economic growth in decades. This risks hitting the global economy, which could force the U.S. and other central banks to reduce interest rates as a measure to help support economic activity.

Lower interest rates in the United States tend to support gold in two ways. First, the opportunity cost of owning gold drops as a result of the reduced return investors can get from alternative investments. In addition, falling U.S. interest rates can put pressure on the American dollar. Gold is priced in U.S. dollars, so a weaker greenback makes the yellow metal cheaper for holders of other currencies.

Geopolitical threats

Gold is also used as a safe-haven investment when geopolitical instability threatens to upset global

markets. Iran just shot down a U.S. drone in the Strait of Hormuz. Tension between the two countries has increased in recent months, and the market is concerned that an escalation to the point of a military clash could trigger a wave of chaos in the already unstable Middle East.

In Europe, the U.K. is working through the process of choosing a new prime minister and the frontrunner, Boris Johnson, is claiming he will ensure the U.K. leaves the E.U. by the Oct. 31 deadline with or without a deal. The situation is likely to run to the wire, and there are fears that a no-deal Brexit could result in a financial crisis in the region.

Should you buy gold miners?

Gold stocks have been under pressure for several years and are starting to look oversold. Many have cleaned up their balance sheets and are now focused on projects with strong returns on investment that will drive steady free cash flow.

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) is a good example. The company significantly reduced its debt levels, raised the [dividend](#), and streamlined its operations before merging with Randgold Resources. The combined company owns five of the top 10 mines on the planet and is positioned well to prosper in a rising gold environment. If gold holds it gains or moves higher, Barrick stands to generate solid profits, and the market might not be fully appreciating the earnings potential.

The tailwind behind gold appears strong right now, and investors could see the miners play catch-up in the coming months. If you have some cash sitting on the sidelines, it might be a good time to add Barrick Gold or its peers to your portfolio.

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