Gold Investors: Should You Sell Gold Stocks After the G20 Summit Results?

Description

Gold bulls have enjoyed a nice rally over the past nine months, and investors are wondering if developments at the G20 meeting this past weekend in Japan could signal the end of the party for gold stocks.

U.S. and China chat

The leaders of the United States and China had a chance to meet on the sidelines of the summit. The anticipated conversation between President Trump and President Xi had investors and traders sitting on the edge of their seats at the end of last week, debating what would come out of the talks.

Pundits had views ranging from a surprise trade deal to an increase in tariffs. In the end, the result is pretty much what most people should have expected. China and the United States have agreed to a "truce" in their ongoing trade dispute. Neither country will increase tariffs while they continue to negotiate.

Gold dropped as much as 2% in international trading on July 1. Part of the pullback could simply be profit taking after the sharp move above US$1,400 in recent weeks. The other reason could be connected to the U.S. decision to allow American companies to continue selling components to China's largest telecom player Huawei.

The move might be viewed as an olive branch being extended by the United States, and pundits could be reading it as the breakthrough that would lead to a trade deal.

DMZ meeting

President Trump also met with North Korea's leader at the border between South and North Korea.The photo session led to a brief closed-door meeting between the two men, and that has the market wondering if relations might start to improve again after talks broke down regarding North Korea's nuclear program.

Overall, the market could be seeing a dip in safe-haven buying. If that trend continues, gold could extend the pullback.

Bond yields

The bond market barely budged after the conclusion of the G20. The U.S. 10-year yield remains close to 2%, suggesting traders are still anticipating a U.S. interest rate cut next month. Global economic uncertainty created by the U.S.-China trade dispute and punitive tariffs play a factor in the Fed's rate decisions. If the market believed a trade deal might be on the way, the bond market likely would have sold off, driving yields higher.

Low bond yields tend to be positive for gold.

Are gold stocks a buy?

Shares of mining companies dropped in the United States on July 1 as gold pulled back. **Barrick Gold** (TSX:ABX)(NYSE:GOLD) dropped 5% in the first half of the trading day.

Long-term gold bulls might want to take advantage of the dip to add to positions in their portfolios.

Why?

There is a chance the weakness could be short-lived, as interest rates tend to have a larger influence on gold than geopolitical events. Barring a sudden mood reversal, the Fed is widely expected to cut its target rate, at least once in the second half of 2019 and again next year. Assuming that happens, bond yields should continue to fall and provide ongoing support for gold.

Investors who have been on the sidelines might want to buy Barrick Gold and its peers on any further move to the downside.

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