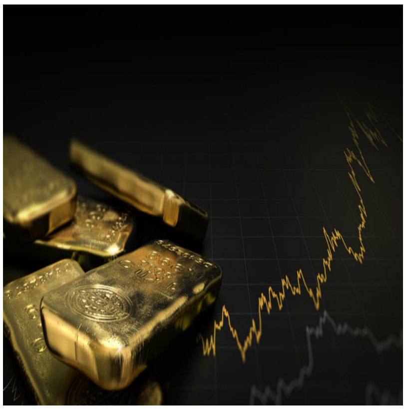

Is the Gold Rally Just Beginning?

Description

The price of gold just blew through US$1,450 per ounce, and investors who have been sitting on the sidelines of the gold trade over the past year are wondering if it is finally time to add gold exposure to their portfolios.

Let's take a look at the current situation to see if the rally has legs.

Trump and the Fed

Gold's rally in 2019 began as a result of reduced expectations for interest rate increases.

The U.S. Federal Reserve had been on an aggressive pace of rate hikes leading into the fall of 2018, and until the end of the summer last year, most analysts expected the trend to continue through 2019 with an additional three increases.

That's before the trade tensions with China really started to ramp up. The stock market plunge late last year also helped put the Fed back on its heels, and suddenly gold started to catch a bid.

Now that we are through the first half of 2019, it has became evident that tariffs and the ongoing trade spat with China are having a negative impact on American companies and putting the global economy at risk. This has led to another shift in sentiment regarding rates. By early July, the market had pretty much priced in a July 31st interest rate cut.

The Fed didn't disappoint and reduced the target rate by 0.25%. Gold initially pulled back due to the fact that the Fed avoided saying more cuts are coming. However, the dip didn't last long.

President Trump announced August 1 that he was going to add a 10% tariff on an additional $300 billion of Chinese goods while negotiations continue. This sent buyers back into gold on the assumption Trump is determined to force the Fed's hand to cut rates even further.

Upside

With more traders feeling confident the Fed will cut rates again before the end of the year, the precious metal could be setting up for another strong surge. Pundits are starting to target a potential move toward US$1,600 on new interest.

The U.S. and China are key drivers, but other risks to the global economy are also in play. The U.K. has a new prime minister who is saying he will ensure the U.K. leaves the E.U. at the October 31st deadline, with or without a Brexit deal. The closer we get to that day without an agreement, the more likely the financial markets will get nervous, and this could drive additional gold demand.

Gold stocks

Gold stocks tend to rise by a larger percentage than the actual metal. They also carry operational risks that can derail the rally, but the miners generally provide more upside torque. For example, **Barrick Gold** (TSX:ABX)(NYSE:GOLD) is up 40% in the past two months compared to gold's rise of about 13%.

Should you buy?

Volatility should be expected, and there is a chance the whole rally could fizzle out on a reasonable Brexit agreement or progress on trade talks between China and the United States.

Anything is possible in this crazy environment, but there is also a chance that something really goes sideways, and if that happens, gold could potentially take a run at the 2011 high around US$1,900.

Barrick Gold and its peers appear very cheap today, even after the big move in the past couple of months. The miners have cleaned up their balance sheets, are focused on projects with strong return on investment, and are finally running the business with an eye to maximize free cash flow.

Barrick is on track to produce five million ounces of gold in 2019. All things being equal, every additional US$100 per ounce in the price of gold adds US$500 million to the bottom line.

If you have some cash sitting on the sidelines and expect the recent drivers of the rally to continue, it might be a good time to add Barrick Gold or its peers to your portfolio today.

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