
Are Gold Stocks Still a Buy?

### Description

The rally in the price of gold in 2019 has come as a surprise to many investors, and those who remained on the sidelines over the past few months are now wondering if they should get in today or wait for a pullback.

Let's take a look at the current situation to see if this is the right time to add gold stocks to your portfolio.



## Interest rates

A year ago, most pundits expected the U.S. Federal Reserve to raise interest rates three times in 2019.

As the fall approached, however, trade tensions between China and the United States started to ramp up, and a steep correction in the equity markets changed the mood at the American central bank. This reversed a downturn in the price of gold, as traders started to become more bullish on the yellow metal amid reduced convictions for rate increases.

Few analysts expected the 180-degree turn that has now occurred at the Fed.

Rather than three rate hikes, the first move of the year was a cut, and pundits are trying to decide if the reduction that happened at the end of last month is the start of a series of moves to the downside.

Gold tends to benefit when rates are falling, or at least when expectations increase for reduced interest rates. Lower rates result in falling yields on things like GICs that often compete with gold for funds. Gold doesn't offer any yield, so it can lose its attraction when rates are rising.

Bond yields have also come down this year, and in some countries, such as Japan and Germany, government bonds now have negative yields. In fact, a recent report from **Deutsche Bank** says roughly one-quarter of global government bond yields are below zero.

That makes no-yield gold more attractive.

## Geopolitical situation

Gold sometimes catches a bid when investors start to worry about protecting their capital. The ongoing trade battle between the United States and China risks sending the global economy into a recession. The uncertainty around the Brexit deadline at the end of October is adding fuel to the fire.

The combination of the two threats might be too much for traders to handle. As a result, the trickle of funds that has gone into gold in the past eight weeks could turn into a flood.

If that happens, gold's recent move above US$1,500 might be a short stop on the path to US$1,650 or $1,700 in the next couple of months.

## Risks

Gold can be volatile, and the fact that it tends to be driven by emotion puts it at risk of reversing course quickly. A deal between China and the United States would likely trigger profit taking. A reasonable Brexit agreement could also put a dent in gold demand.



## Should you buy gold stocks?

The gold miners have surged as a result of gold's move to six-year highs, but most are coming off such low levels that many still appear cheap.

**Barrick Gold** (TSX:ABX)(NYSE:GOLD), for example, is up about 50% from $16 to $24 per share in the past two months. The mining giant is arguably much more stable today than it was three years ago when it traded for $29 and gold was roughly 10% cheaper than it is today.

Assuming the US$200 per ounce gain in the price of gold in 2019 can hold, Barrick stands to generate additional annualized cash flow of US$1 billion on anticipated 12-month production of roughly five million ounces.

The market probably hasn't priced in that scenario. When it does, Barrick Gold should move higher. Investors might even see a dividend increase for 2020.

If you are a gold bull and have some cash sitting on the sidelines, it might still be worthwhile to add some gold exposure to your portfolio today.

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**Date**
2025/09/11
**Date Created**
2019/08/12
**Author**
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