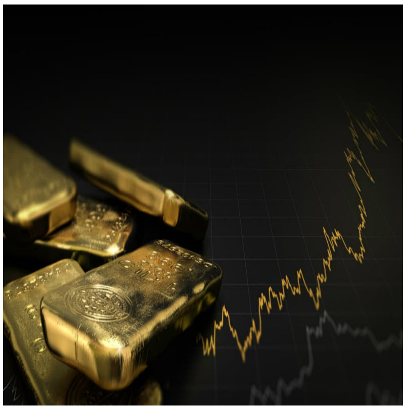

Gold Investors: Is the Rally Over?

Description

Gold stocks just gave back some of their recent gains, as investors take profits and step aside to assess the current state of the market.

The sell-off came as a result of a 2% plunge in the gold price from multi-year highs, triggered by news that the United States and China will get together again next month to continue talks in an effort to resolve their ongoing trade dispute.

Recession fears

The ongoing trade battle with rising tariffs between the world's two largest economies has stoked fears of a global economic downturn. This has provided a tailwind for gold, as traders seek out safe-haven assets to store their cash.

Gold risk?

China and the United States both know they can't continue the dispute indefinitely. China's economy is already growing at its slowest pace in decades, and the government won't risk allowing a major economic downturn to occur. This could spark unrest in the mainland, especially after the protests that have occurred in Hong Kong in recent months.

The current Trump administration is also keen to get a deal done ahead of the 2020 election. A stock market crash and a recession would work against the president in his efforts to be elected for a second term.

In this light, it would be reasonable for investors to anticipate a deal sometime in the next few months, and that would likely be negative for gold.

More gold upside?

The trade stakes are high, and neither side wishes to be viewed domestically as having been the one that caved to get the deal done. There are also several complicated items to work out, including tech security, and that isn't going to be easy.

President Trump is difficult to predict, and he could very well ramp up pressure if he doesn't like the way the negotiations are proceeding. Any additional round of new tariffs would likely push gold higher.

At this point, it is probably a coin toss on the trade dispute.

Negative bond yields

Recent reports suggest that a quarter of global government debt now trades at a negative yield. This includes most of Europe and Japan. Talk of the U.S., Canada, and Australia joining the club is becoming more common, and that risks sending global markets into a new era.

The problem can't be fixed with a few social media posts, and some pundits say the situation will get worse and last years. In a world where you have to pay the banks to borrow your money, rather than receiving interest for lending them your cash, it might make more sense to buy gold.

Should you buy the dip?

Gold can be volatile, and investors should expect to see big moves in either direction for the foreseeable future.

Given the ongoing global financial and geopolitical risks in combination with declining interest rates and tumbling bond yields, it is likely the gold rally will extend through 2020. Bouts of profit taking will occur, but investors might want to use corrections as opportunities to start a new position.

Gold ETFs give investors a way to own bullion without having to physically hold and store the yellow metal. Another option to get exposure is to own the large miners. The stock prices of the miners tend to be more volatile than gold itself, as the recent movements clearly show. For example, **Barrick Gold** (TSX:ABX)(NYSE:GOLD) dropped 7% the other day when gold was hit with a 2% decline.

The upside torque, however, is also worth considering. The price of gold increased roughly 20% in the past three months, while the share price of Barrick Gold jumped about 60%.

If gold can hold its 2019 gains or extend the rally, Barrick Gold stands to generate strong free cash flow and investors should see higher dividend payouts in the next couple of years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/11
Date Created
2019/09/07
Author
aswalker