Are Gold Stocks Getting Oversold?

Description

The price of gold is back down to US$1,450 per ounce at writing.

That's still well above the US$1,200 it fetched a year ago, but off the US$1,550 high we saw at the beginning of September. Gold bulls see the pullback as a healthy correction before a surge to new multi-year highs. Bears say the rally went too far and believe that more downside is on the way.

Let's take a look at the current situation in the gold market to see if this is a good time to add gold stocks to your buy list.

Trade battle

A good chunk of the gold rally that occurred from June through the end of August could be attributed to fears that the China-U.S. trade war was getting out of hand.

Tariffs have started to have domino effects worldwide, which is causing reductions in estimates for global growth.

Last month the IMF cut its global growth forecast for a fifth-straight time, blaming trade tensions for a slowdown that will see the global economy end 2019 with a growth rate of just 3%, representing the worst performance in ten years.

In recent weeks, the commentary out of Washington has indicated that progress is being made on negotiations with China and the two countries are getting close to a partial agreement.

Skeptics say the rhetoric is simply a ploy to calm market fears. Traders are obviously believing the spin, as gold has pulled back US$100 per ounce in the past two months.

In the event the U.S. and China sign a meaningful trade agreement that results in the cancellation of tariffs, gold could extend the recent slide.

Another failure in the talks, however, could quick send gold back to the 2019 highs.

Brexit

The latest Brexit delay has also taken some fear out of the market. The U.K. is headed to the polls in December, which has the markets feeling less-afraid that a no-deal Brexit will be the eventual outcome.

Current Prime Minister Boris Johnson is hoping to win a majority in the election. If that happens, the U.K. could leave the EU with the Brexit deal he recently negotiated with the European Union.

If a minority government is the result, the entire process could get dragged on through 2020, with potential outcomes ranging from a no-deal exit to a new referendum. Any indication of more uncertainty or an increased threat of a no-deal Brexit would likely be positive for gold.

Trump

The U.S. election is one year away and a number of developments leading up to the vote could send gold soaring.

In the event that Elizabeth Warren wins the Democratic nomination, gold could surge as investors worry that a Warren victory would be negative for stock markets.

An unexpected development in the ongoing impeachment process could also add to market uncertainty.

Should you buy gold stocks today?

Investors should expect ongoing volatility in the gold market, and further downside is certainly possible in the near term.

That said, the producers are starting to appear attractive. The US$250 per ounce rise in gold over the past 12 months is boosting margins for producers, and the longer gold holds the gains, or moves higher, the better the results are going to be in the coming quarters.

Barrick Gold, for example, might not be getting the respect it deserves. The board just raised the dividend by 25%, as the company reported adjusted Q3 2019 net earnings of US$264 million compared to US$89 million in Q3 last year.

Net debt is down to US$3.2 billion. The miner had US$13 billion in debt when it began its turnaround efforts a few years ago. The monetization of non-core assets is expected to unlock another US$1.5 billion by the end of 2020, which means that Barrick Gold could be debt-free in the next two or three years.

If you believe that 2020 will be a rocky one for the global economy and full of geopolitical uncertainty, it might be worthwhile to start a position in Barrick Gold or its peers while the gold rally is taking a break.

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aswalker