Will Gold Rally to $1,600 in 2020?

Description

Investors are starting to line up their [TFSA] and RRSP portfolios for the coming year, and the question of whether or not to buy gold stocks is once again on their minds.

Gold performed well in 2019. The yellow metal started the year near US$1,280 per ounce and hit US$1,560 in early September. It is currently trading at US$1,480, so as we head into the final two weeks of 2019, gold investors should finish the year with decent gains.

In order to determine if the rally will continue, it might help to look at the reasons gold moved higher in the past 12 months.

Trade wars

The trade battle between the United States and China has played a role in gold's gains. Punitive tariffs have disrupted supply chains and forced companies around the globe to search for alternative sources of products. The uncertainty around the length of the dispute has resulted in businesses shelving investment plans until they have a clearer trade picture.

These factors have increased the risk of an economic downturn that could spill across the globe. As a result, gold has become popular as a safe haven for investors who want to build some protection into their portfolios.

The recent news that China and the U.S. have reached a Phase One trade agreement should have knocked gold back, but the price of the yellow metal is actually higher since the announcement. This suggests the market doesn't believe the deal is real or is disappointed in the details.

Negotiations continue and gold could move higher on any negative trade remarks regarding the next steps.

Brexit

The U.K.'s impending exit from the European Union also provided fuel to the gold rally. Political chaos in the U.K. and delays to Brexit have been a major source of economic uncertainty.

Now that the U.K. election is over, and the prime minister has won a large majority, it appears that Brexit will occur on Jan. 31 with some form of a deal agreed between the U.K. and the European Union. Again, the improved clarity to the situation should have been negative for gold, but that hasn't been the case.

Negative bond yields

The trend toward negative bond yields around the globe might be the reason gold is holding up well and could drive the precious metal higher in 2020.

Gold doesn't provide any yield, but that starts to look like a good bet when it costs investors money to lend to the government.

Could gold stocks rally?

The industry has worked hard to shore up balance sheets in recent years and a focus on profitable mines and free cash flow has replaced the previous goal of getting bigger regardless of the merits of the deals.

As a result, companies such as **Barrick Gold** are in a good position to capitalize on higher gold prices.

Barrick Gold has substantially reduced debt through the monetization of non-core assets and streamlined its operations. It even raised the dividend. In addition, the merger with Randgold Resources made Barrick Gold a major global player with five of the top 10 mines on the planet and several promising development projects.

If gold can maintain its gains or move higher in the coming year, Barrick Gold's share price should perform well in 2020.

The bottom line

It wouldn't be a surprise to see gold take a run at US$1,600 at some point in the next year. The risk of an economic downturn hasn't decreased with the token trade deal announced by the U.S. and China, and a worldwide race to devalue currencies to prop up domestic growth could trigger a rush to gold.

Volatility should be expected, but gold could deliver another solid performance in 2020.

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