RRSP Investors: Should You Own Gold Stocks in 2020?

Description

Canadian savers are starting to line up their RRSP investments for the coming year and many people are wondering whether gold stocks are attractive picks right now.

Let's take a look at the current situation in the gold sector to see if the gold miners deserve to be on your RRSP buy list in 2020.

Outlook

Gold picked up a nice tailwind in recent weeks, climbing back above US$1,500 and appears set to finish 2019 with a gain of 18%. The year-end rally could stretch well into 2020.

Why?

The announcement of the Phase One trade deal between China and the United States should have put a damper on gold demand, as the agreement leads to reduced tariffs and the potential for more progress in trade talks between the two countries.

The result, however, has been a gold surge. The move suggests that the market might have anticipated a more robust agreement, or doesn't expect much more from the negotiations in the coming months.

A currency effect is also contributing to gold's rise. The U.S. dollar has fallen against a basket of developed market currencies, giving gold a boost.

The precious metal is priced in U.S. dollars, so any weakness in the greenback makes gold more affordable for holders of other currencies and can boost demand.

Safe-haven status

Safe-haven buying was part of the story in 2019, which could be a common theme through the next 12 months. The U.S. conducted military strikes in Iraq and Syria in recent days, hitting targets backed by Iran.

The move could escalate tensions in the Middle East. Iran is accused of being behind the attacks in September on Saudi Arabia's oil facilities. The strikes briefly halted half of Saudi Arabia's production, sending oil prices surging.

Any major military scuffle between Iran and Saudi Arabia or a more forceful attack by the United States on Iran-backed groups in the region could trigger a new wave of gold buying.

Low interest rates

Gold doesn't provide any yield, so it becomes less competitive with fixed-income investments when interest rates are moving higher.

In 2019 we saw the U.S. Federal Reserve cut its target rate three times, which helped spur gold demand. The American central bank is expected to hold rates steady in 2020 as long as economic conditions remain stable.

Any indication that the economy is faltering could spur expectations for another cut, which would likely drive additional gold demand.

A trend toward negative bond yields globally is also positive for gold. In an environment where you have to pay the government to borrow your money, no-yield gold starts to look attractive.

Should you buy gold stocks?

Gold stocks are starting to move higher after giving back some of their 2019 gains. We could see momentum pick up in 2020.

The longer gold remains at its current price or moves higher, the more likely it is that we'll witness the miners start to report better margins and rising free cash flow. The larger players, such as Barrick Gold, stand to benefit significantly due to their large production levels.

The gold miners have done a good job of cleaning up their balance sheets and making their operations more efficient. Mergers are now being done at reasonable prices and consolidation is expected to continue.

As long as the gold recovery holds up, gold miners appear attractively priced right now and could deliver strong gains in 2020.

The bottom line

Gold can be volatile, so I wouldn't back up the truck.

However, the outlook for the sector in the next couple of years should be supportive of higher prices, and adding gold stocks to your RRSP might be a good move in 2020.

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