3 Reasons to Go Into Gold Stocks Today

Description

In the fall of 2019, I'd discussed the trajectory for gold heading into the new year. At the time, I'd suggested that gold could feasibly reach the $2,000 mark. In the first week of 2020, the spot price of gold has surged above the $1,550 mark. Today, I want to explore three reasons why investors may want to pour into gold stocks, which have failed to benefit from the momentum in the near term. Let's jump in.

Rising U.S.-Iran tensions

The most immediate cause of gold's surge has been the rising tensions between the United States and Iran. These two powers waged what largely amounted to proxy wars in the 2010s. The 2016 U.S. election of Donald Trump saw his administration torpedo the nuclear deal, which was struck in late 2015. Since then, the U.S. has applied more stringent sanctions. Last week, a U.S. drone assassinated Iranian general Qassem Soleimani.

Iran retaliated with ballistic missile strikes that struck U.S. bases in Iraq last night. As of this writing, there were no reported casualties on the U.S. side. President Trump gave a statement today that promised more sanctions were forthcoming. However, it did not appear that a military response would follow.

Slowing global growth

Geopolitical tensions in the Middle East have edged gold up in the near term, but the long-term threats for the global economy will have the most consistent impact on price movement. The United States and China are reportedly close to a limited trade agreement, but the substance of the deal is in question.

U.S. growth has slowed after the boom generated by the U.S. Tax Cuts and Jobs Act. Growth in the Eurozone fell to worrying levels in 2019, with Germany and Italy both teetering on the brink of recession. However, progress on Brexit has analysts and economists more optimistic in 2020. China and India, two nations that have powered global growth in recent years, saw that increase slow considerably in 2019.

Fortunately, stimulus has kept a dramatic pullback at bay.

Dovish central banks

Central banks have responded to slower growth with more stimulus. The U.S. Federal Reserve dropped rates three times in 2019. Late last year, the European Central Bank cut its deposit rate to a record-low 0.5%. It also revealed that it would restart bond purchases of €20 billion a month from November onward. In December, China’s central bank lowered the interest rate on 14-day reverse repurchase agreements, which came after a cut on the seven-day repo rate in November.

The period of historically low interest rates and monetary stimulus, once thought to be a temporary measure to counteract the 2007-2008 recession, has bled into a third decade. These conditions have successfully underpinned financial markets, but they are also bullish for precious metals. In the event of more violent pullbacks, central banks will have far less ammunition than they possessed at the beginning of the financial crisis.

Two gold stocks to consider today

Barrick Gold stock was down 2.6% in early afternoon trading on January 8. It has got off to a slow start in 2020, but as one of the top producers in the world, it is well worth monitoring. Continued momentum for the spot price of gold will be good news for Barrick. Shares of **B2Gold** were down 3.6% at the time of this writing. Both stocks are still trading close to 52-week highs, but there is buy-the-dip potential to start the year.

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