Can Gold Extend the Latest Rally Through the End of 2020?

Description

The price of gold started the new year with a major surge, driven by safe-haven buying amid a flurry of geopolitical threats.

A pullback in recent days, however, has investors wondering if the rally is already over for 2020 or just taking a pause before another run to new multi-year highs.

Let's take a look at the drivers of the gold price to see if more gains could be on the way.

Fears of war

The U.S. killing of Iran's top military leader sent global traders scrambling to find a safe place to store cash while they wait to see how the new developments will unfold.

The strike, which occurred in Iraq, led to Iran responding with a retaliation attack on U.S. bases in the neighbouring country. The market is now trying to decide if cooler heads will prevail and diplomatic channels will open to de-escalate the tensions.

The U.S. is now imposing additional sanctions, rather than another military strike, which had been feared by global markets. The situation in the Middle East was already tense after the attack in September on Saudi Arabia's oil fields. The U.S. blamed Iran for the drone strikes that briefly knocked out 50% of Saudi Arabia's output.

A full-blown war in the Middle East between Iran and any of its foes, including the United States, Israel, and Saudi Arabia would likely send oil prices soaring and put the global economy at risk of a steep recession.

This would probably drive gold much higher than the US$1,600 it topped last week. The all-time high above US$1,900 set in 2011 would certainly be within reach.

Trade battles

Much of the 2019 gains in the price of gold came as a result of concerns that the ongoing trade war between China and the United States is disrupting supply chains and forcing companies to hold off investments to the point that a worldwide recession could be in the making.

The announcement of the Phase One agreement between the two countries did little to comfort gold traders, however. In fact, the price of the metal has risen despite the apparent breakthrough.

In Europe, the U.K.'s exit from the European Union is set to become official as of January 31, but that is just the start of the process. The U.K. will have to negotiate new trade arrangements through 2020, and there is much concern as to how the negotiations will pan out.

While Brexit has dropped off the media radar in recent weeks, the problem hasn't disappeared.

Bond yields

The trend toward negative bond yields in many countries around the globe could be the largest driver of higher gold prices in 2020 and beyond.

Gold doesn't pay you anything to own it, but no yield looks pretty good when the typical alternative option for parking funds offers a negative return. Government bonds in Germany and Japan, among others, are already trading at negative yields.

There's a risk that the situation could spread, putting global markets in uncharted territory.

Should you buy gold stocks?

Advisors normally recommend some exposure to gold as part of building a balanced portfolio. If you are a gold bull, and are underweight in the sector, gold stocks might be attractive right now.

For example, **Barrick Gold** has spent the past few years cleaning up its balance sheet and streamlining its operations. The merger with Randgold Resources last year created a giant with assets that include five of the top 10 gold mines on the planet. The board even raised the dividend.

If gold is in the early innings of an extended recovery, Barrick Gold and its peers deserve to be on your radar today.

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