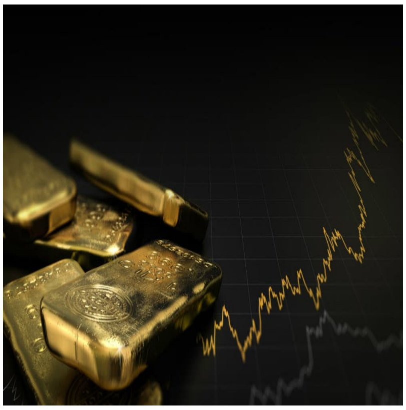

TFSA Investors: Should You Buy Gold Stocks After the Recent Pullback?

Description

The gold rally ran into a brick wall last week, hit by a major sell-off in the stock markets. Investors who missed the recent price surge in gold stocks are now wondering if they should add the gold miners to their Tax-Free Savings Account (TFSA) portfolios.

Volatility

Gold rallied from US$1,550 per ounce on February 4 to US$1,690 just 20 days later. Investors then decided to book profits and the price fell sharply back below the US$1,600 mark by the end of last week.

At the time of writing, gold is picking up a new tailwind, rising more than 2%.

What's going on?

Fears connected to the spread of the coronavirus continue to move equity markets. Investors are concerned the economic impact could be larger and last longer than initially expected.

The slowdown in China has impacted consumer spending in the planet's second-largest economy and disrupted global supply chains. International businesses are sending out revenue and profit warnings for the first part of 2020 and the ongoing spread of the coronavirus outside of China is now driving additional economic fears.

South Korea, Iran, and Italy are dealing with significant outbreaks and 50 countries around the world have reported cases of the coronavirus.

Stock markets fell more than 10% last week and additional downside could be on the way.

Safe haven

Investors are shifting cash to safe-haven assets. The U.S. 10-year bond yield is at a record low, recently hitting 1.05%. It started 2019 at close to 1.9%. Falling bond yields normally bode well for gold as the reduced return investors get from government debt closes the gap in the opportunity cost of owning no-yield gold.

A series of interest rate cuts in the United States last year sparked the gold rally. As the global economic slowdown becomes more evident, central banks are expected to cut interest rates to help mitigate the impact, which should provide additional support for the gold market.

Geopolitical tensions can also drive gold demand. In early January, it appeared that the U.S. and Iran might be headed toward a military conflict after the U.S. killed one of Iran's top generals. The outbreak of the coronavirus has changed the focus of global leaders, but the conflict risks in the Middle East have not gone away.

The U.S. and China signed a phase one trade agreement in January. Gold didn't drop on the news and the two countries still have tariffs in place. There's much work to be done before a broader trade pact is reached.

Should you buy gold stocks?

The share prices of gold miners fell along with the broader equity markets last week. **Barrick Gold**, for example, slipped from just under $30 per share to $26.60, returning it back to its lowest level in the previous two weeks.

Barrick stands to generate significant free cash flow if gold can hold the 2020 gains or extend the rally through the end of the year. The board raised the dividend by 40% for 2020 — a decision that was made before the latest upswing in the gold market, so management is obviously comfortable with the revenue outlook.

The company could be at zero net debt by the end of December. The situation is quite different from that of a few years ago, when a US$13 billion debt load threatened to crush the company.

Positive momentum for the gold market is likely in place for the medium term, which should attract more buyers to the miners. If you are searching for an entry point, this might be a good time to add gold stocks to your TFSA portfolio.

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