
Momentum Investors: This Top Gold Stock Just Hit a 7-Year High

### Description

The gold rally continues to pick up steam, driving the share prices of top gold stocks to new multi-year highs.



## Gold surge

At the time of writing, gold trades at US$1,730 per ounce. A year ago, investors paid close to US$1,300. The rally started near the end of May and initially ran through the summer of 2019.

Fears surrounding the trade war between China and the United States fuelled most of the gains. Tariffs started to hurt both economies and the threat to the rest of the world started to make traders uneasy.

Gold hit US$1,560 in early September. Profit-taking occurred through much of the fourth quarter amid rumours that the U.S. and China had made progress on the trade negotiation. Gold fell back below US$1,460 in November, albeit has climbed higher since that time.

The announcement of the phase one trade agreement didn't calm investor concerns and the emergence of the coronavirus has created new safe haven demand.

Gold jumped to US$1,675 in February and again in early March before the market crash sent the price back to below US$1,500. In recent weeks, the rally picked up new momentum.

Why?

Aggressive stimulus measures by the United States Federal Reserve and other central banks around the globe should be positive for gold. Interest rate cuts are reducing the yields investors get from fixed-income offerings. This lowers the opportunity cost of owning gold, which doesn't provide any yield.

Safe haven demand remains a part of the story. Despite the announcements of government aid programs to help businesses and support people who lost jobs, the short-term economic pain is going to be severe.

Financial markets are stressed and uncertainty remains regarding the timing for a rebound once the pandemic subsides.

Overall, the medium-term outlook for gold should be positive, and it wouldn't be a surprise see the yellow metal take out the 2011 highs above US$1,900.

## Top gold stocks

**Barrick Gold** (TSX:ABX)(NYSE:GOLD) just broke above $30 per share for the first time since 2013. The company spent most of the past eight years in the doghouse after large acquisitions it made at the top of the market saddled the company with significant debt.

The situation got so bad by late 2015 that some pundits thought Barrick Gold wouldn't survive. The stock fell from $50 per share in 2011 to below $10 before the restructuring plan went in to gear. Contrarian investors who stepped in at that point are sitting on some nice gains.



Barrick Gold managed to sell non-core assets and reduce debt from US$13 billion to the current situation where the company could easily have zero net debt by the end of 2020.

Rising gold prices certainly helped and Barrick Gold also made good progress on streamlining operations to reduce expenses.

The old days of growing at any cost are over. Barrick Gold now focuses on high-return projects and strives to create strong free cash flow.

The board raised the dividend by 40% for 2020. The continued strength in gold prices should support additional payout hikes. The stock price already increased nearly 100% from the 2019 low. More upside should be on the way.

The longer gold holds its gains, the bigger the margins Barrick Gold stands to achieve on its roughly five million ounces of annual gold production.

In addition, the plunge in oil prices could boost earnings even higher. Mining operations consume significant amounts of fuel.

## The bottom line

Ongoing volatility should be expected, but the market conditions support higher gold prices.

If you have some cash sitting on the sidelines and are underweight gold, Barrick Gold appears attractive right now.

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