



Gold Rally: Is Barrick Gold (TSX:ABX) Stock Cheap Today?

Description

The gold rally hit a speed bump in recent weeks and top gold stocks, including **Barrick Gold** ([TSX:ABX](#)) (NYSE:GOLD), are down significantly from the May highs.

Gold price outlook

Gold trades at US\$1,725 per ounce at the time of writing. A month ago the yellow metal was about US\$1,750 and the 2020 closing high is just under US\$1,770. The precious metal has essentially traded sideways over the past two months after a major run that actually began a year ago. Gold traded for US\$1,350 at the start of June 2019.

The resilience in the gold market after such a huge run suggests that it might simply be taking a breather before a new surge toward the 2011 high above US\$1,900.

Analysts broadly expect gold to hit US\$2,000 in 2021 and some predictions even see US\$3,000 as a possibility in the next 18 months. While some volatility should be expected, the conditions are in place to support more gains.

Why?

The U.S. Federal Reserve said interest rates are not headed higher before 2022. Rising rates tend to be negative for gold as they increase the opportunity cost of owning the yellow metal. The fact that the Fed intends to sit on its hands for that long should put a floor under gold around the current price.

The pace of the [economic recovery](#) is still uncertain. Bond yields are already negative in Japan and Europe and some pundits think we will see negative yields in the United States before the recession is over. If that turns out to be the case, gold could surge.

Zero yield on gold starts to look good when the alternative is to pay the government to borrow your money.

Inflation hedge

Central bankers broadly expect inflation to remain low in the developed economies despite the massive monetary and fiscal stimulus measures being put in place to boost economic activity. Some market observers, however, see a risk that inflation could arrive faster than expected if we see a sharp V-shaped economic rebound.

Investors often buy gold to hedge against inflation. This could boost demand in the event prices start to rise too quickly and governments wait longer than normal to boost rates.

Is Barrick Gold a buy?

Barrick hit a closing high above \$39.50 in May. The stock is currently back down to \$32 per share at writing. While this is still 50% above the March 2020 low, the pullback appears somewhat overdone given the ongoing strength in the gold market.

Barrick could exit 2020 with zero net debt — which would be quite an achievement given that the company risked being buried under US\$13 billion in debt about five years ago. Barrick owns five of the top 10 mines on the planet and has the potential to generate significant free cash flow if gold holds at current prices or moves higher. A [dividend](#) increase wouldn't be a surprise before the end of the year.

The sharp rally in equity markets off the March low appears to be hitting some headwinds. Investors might book profits and shift funds back to gold stocks in the coming weeks.

Barrick appears reasonably priced right now, and investors who find themselves underweight gold might want to start nibbling.

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