Canada’s Debt Could Crush the Canadian Dollar: Protect Your Wealth!

Description

Canada’s debt burden was one of the heaviest in the world *before the crisis.* Now, with a global pandemic raging, the government has been compelled to borrow more than ever before. Government borrowing could crush the Canadian dollar and decimate investor wealth. Fortunately, there’s an easy way to protect yourself.

Canada’s debt issue

Canada’s federal debt burden was $768 billion in March, 2019. That was 35% of the nation’s gross domestic product at the time. However, that figure doesn’t paint a full picture. When provincial and intragovernmental debt is accounted for, the total burden is 64.3% of the Canadian economy or $39,483 for every Canadian.

That was last year. This year the debt will surge while the economy will shrink. The cost of the government’s various unemployment and COVID-19-related support programs could exceed $250 billion. Meanwhile, GDP could decline by 6.2% or more this year.

A country with too much debt usually sees its currency weaken. In fact, the Canadian dollar has already weakened 4.5% against the U.S. dollar since the start of 2020. By the end of the year, it could weaken further.

For investors, this means their savings and investments will lose value. A decline in purchasing power is an invisible loss for most investors. To protect their wealth from Canada’s debt woes, institutional investors have started adding a safe haven asset to their portfolio: gold.

Gold price protection

When currencies lose their value, gold becomes more valuable. The price of gold spiked during the 70s and 80s when U.S. and Canadian dollars were losing value. History could repeat itself in 2020.

Hedge fund legends Ray Dalio and Stanley Druckenmiller, along with Nobel economist Myron Scholes, all predict higher gold prices in the future. In fact, Goldman Sachs has a US$2,000 price target for the shiny metal. It currently trades at US$1,775.

Dedicating a portion of your portfolio to either a gold exchange-traded fund (ETF) or a gold mining stock could help you preserve wealth despite Canada's debt struggles. The **iShares S&P/TSX Global Gold Index ETF** and **Barrick Gold** stock are both popular options. Over the past six months, they've gained 30.8% and 47.7%, respectively.

Barrick is a top pick for me. The world's second-largest gold miner could completely eliminate its debt by the end of the year. The strength of its balance sheet and the size of its global operations make it an enhanced proxy for the price of gold.

Bottom line

Canada's debt is a persistent problem. The government's debt burden was already uncomfortably heavy last year. This year, debt will surge while economic activity declines. The confluence of these factors could dent the Canadian dollar's value.

To limit downside and protect their wealth, hedge funds and savvy investors have turned to gold. The shiny metal serves as a safe store of value when currencies decline. Over the past year, the price of gold has appreciated sharply. This surge could continue if Canada's debt balloons and the dollar loses its value.

Investors should consider adding some gold exposure to their portfolio.

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Date
2025/07/26
Date Created
2020/07/03
Author
vraisinghani