Gold Price Tops $2,000: Now What?

Description

The price of gold just blew through the US$2,000 mark. Where is gold headed next, and how should investors react to the strengthening rally?

Gold price hits record

Two years ago, gold traded near US$1,220 per ounce. It has since been on a steady recovery, gaining nearly 70%. At the time of writing, gold sells for US$2,050, and many analysts now see US$3,000 as a possibility by the end of next near.

Now that gold is past the 2011 record around US$1,900, momentum investors are getting more bullish. The fundamentals driving the gold surge appear to be solid, and as more money rotates into the sector, the upside move could extend well beyond previous analyst targets.

Gold price supported by safe-haven buying

The rally through the second half of 2019 occurred due to investor nervousness around the ugly trade dispute between China and the United States. Rising tariffs disrupted supply chains and threatened to push the global economy into a recession. Even when the phase one deal announcement came out late last year, gold continued to move higher.

The start of 2020 brought the pandemic, adding a new tailwind to safe-haven demand and setting up new drivers for higher gold prices.

Interest rates and the price of gold

Government bonds and guaranteed income investments typically compete with gold for investor funds. Gold doesn’t provide any yield, so the opportunity cost of owning gold rises when bond yields and interest rates increase.

In an effort to stimulate economic growth, central banks around the globe cut rates in recent months. A rally in government bond prices also drove down yields. Negative yields already exist in Japan and parts of Europe, and pundits say it is just a matter of time before the United States joins the club. In this scenario, gold becomes much more attractive.

The impact of a falling U.S. dollar

Gold is priced in American dollars. When the value of the U.S. dollar weakens against a basket of other currencies, gold becomes cheaper for international buyers. This can support a rise in the gold price.

The U.S. dollar index initially spiked to 103 in March during the worst of the pandemic market crash but is now down to a 12-month low near 93. Additional U.S. dollar declines could add more fuel to the gold price rally.

What should investors do as the price of gold rises?

Financial advisors typically recommend having some gold exposure in your portfolio. Advice ranges from 5% to 10%, depending on the person.

Buying gold bars at the bank is certainly an option. However, the gold must be stored in a safe place, and carrying it around might not be the best idea.

A better option might be to own shares of gold miners. The stock prices of the gold mining companies tend to rise more than the actual price of gold. All of the top mining companies have enjoyed strong gains in the past year. One option would be to use a gold ETF, such as the **iSHARES S&P TSX GLOBAL GLD INDEX ETF** (TSX:XGD).

This gives you a piece of all the leading gold mining companies, thus spreading out the risk without requiring separate purchases of each stock.

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Date
2025/07/22
Date Created
2020/08/05
Author
aswalker