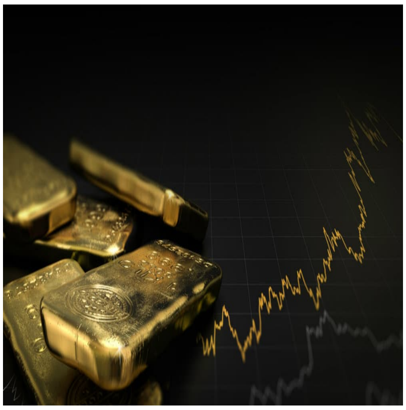

Market Selloff: Why Gold Stocks Are Falling This Week

Description

Volatility is back with a bang. Overvaluation has introduced a new level of risk to the pandemic-driven markets. Gold and tech stocks have seen certain names run by bulls to unsustainable levels. The past few weeks have seen tech stocks pulling back. This week, it was the turn of precious metals to see the beginning of a broader correction.

Not quite a stock market crash

Monday saw the **S&P/TSX Composite Index** close down 217 points (1.3%). There was a lot of red ink across the board, with traditionally safe names taking losses. **Barrick Gold** was down 1.5%, for example, while **CN Rail** was down 0.9%.

Some old trends resurfaced. **Manulife Financial** lost 3%, reminding investors that insurance stocks and the pandemic don't play well together. Meanwhile, in an echo of the March selloff, hydrocarbon stocks **Suncor Energy** and **Canadian Natural Resources** were down 4.2% and 4.6%, respectively.

It's losses like these on the markets that have investors worried. It comes at a time that Canadians are wondering about the CERB extension, and how it applies to their finances.

Tuesday saw the index bounce, splashing green across the boards. CNQ was back in the saddle, gaining 1.8% and wiping out almost half its losses from the previous day. It wasn't all good news, though. Tellingly, Manulife was down by a further 0.8%, showing just how unpopular certain insurance stocks are in 2020. With the exception of **CIBC**, up by 0.3%, the Big Five banks were also in the red come Tuesday at lunchtime.

Gold stocks have seen some losses this week

Shopify gained 3.7% Monday, defying the selloff. However, TSX30 peer, **Neptune Wellness Solutions** lost almost the same amount in the same day of trading. This indicates that recent share price performance counts less than sectoral risk in 2020. The growth trends that have characterized the pandemic are still valid — at least until a working vaccine is available.

To take another exemplary stock from another sector, **Wesdome Gold Mines** saw losses of almost 4% during the flash selloff. This highlights the need for gold investors to be just as vigilant as any other kind of shareholder at the moment. While the yellow metal is the classic safe-haven asset, the froth of the current market clearly extends to mining stocks.

Though the rally continued midweek, the index was nevertheless down again by a quarter of a percent. Of interest here are the banks, though, which each gained around 1% each Wednesday. Names that were still in the red come midweek included **Franco-Nevada**, Barrick Gold, and **Wheaton Precious Metals**. Just as tech stocks had their selloff of overvalued names, now it's the turn of high-flying gold stocks.

Overvaluation is one of the greatest risks in the current market. The selloff in gold stocks suggests that the growth investors are cashing in some over-ripened shares this week. However, the low-risk, long-term investor should hold onto their gold stocks. Going long on gold remains a classic response to the risk that can cause major stock markets to fall the way they did at the start of the week.

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