



## Value Investors: Are Gold Stocks Now Oversold?

### Description

Gold stocks sold off in recent weeks amid a wave of positive COVID vaccine announcements. [Value](#) investors with a contrarian investing strategy are wondering if this is a good time to add gold miners to their portfolios.

### Gold price outlook

At the time of writing gold trades near US\$1,840 per ounce. That's down from the August high around US\$2,080. The pullback over the past four months has been choppy, but the trend has definitely been downward after the steep rise from the beginning of the year.

Investors might be inclined to think the gold rally is over. However, a quick look at the pattern in recent years suggests the latest correction might just be a blip before a move to new highs.

Five years ago, gold traded below US\$1,100 per ounce. The conditions that supported the rise over that time remain in place and look to be supportive of strong gold prices in the next few years.

### Interest rate impact on gold prices and gold stocks

Gold tends to do well when interest rates move lower. Falling rates reduce the opportunity cost of owning no-yield gold. Over the past few years, rates have fallen in the United States. Around the world, some central banks have moved to negative rates to try to drive economic growth.

When you have to pay a government to borrow your money, gold starts to look pretty good as an alternative.

Trillions of dollars in government bonds now sport negative yields. Japan and a handful of European countries are on the list. Pundits speculate it is only a matter of time before the United States or even Canada joins the club. The Bank of Canada maintains the position that it isn't interested in going down the [negative-rate](#) road but hasn't ruled it out if the economic situation warrants a drastic response.

## U.S. dollar impact on gold prices

Gold is priced in U.S. dollars. As the greenback falls in value against a basket of foreign currencies, gold and gold stocks often catch a tailwind. The U.S. dollar index is currently at its lowest level since the spring of 2018. One recent analyst report suggested the American dollar could drop 20% in value over the next year.

In that situation, gold should move higher.

## Are gold stocks a buy now?

Investors dumped gold stocks in recent weeks in favour of tech and biotech names. The pullback appears overdone for a number of the top gold stocks. For example, **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) currently trades below \$30 per share compared to the 2020 high around \$40.

The company reported strong earnings and free cash flow for [Q3 2020](#). Barrick even raised the [dividend](#) by 12.5% due to the strong cash flow and the positive outlook heading into 2021. Barrick made great progress on efforts to clean up the balance sheet in recent years and is now focused on high-return assets.

The company will likely end 2020 with zero net debt. If gold prices hold near current levels or move higher, Barrick Gold is positioned to be a serious cash machine.

Volatility should be expected, but gold stocks appear oversold right now. If you are a gold bull, this might be a good time to add the gold miners to your portfolio.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

### PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

### Category

1. Investing
2. Metals and Mining Stocks

### Tags

1. Editor's Choice

### Date

2025/08/27

### Date Created

2020/12/14

### Author

aswalker

default watermark

default watermark