



1 Top TSX Stock to Buy Today

Description

Of all my top picks, perhaps none have performed more poorly than **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) recently. This Canadian gold miner is having a hard time right now, as investors have moved away from investing in gold. I think there are reasons for this. Accordingly, I'll discuss why my outlook is still very bullish on Kirkland Lake and why I think investors should buy the dip on this stock.

Kirkland Lake is cheap for a reason

The outlook for gold right now doesn't look great.

The main factor underpinning lower gold prices recently is rising interest rates. Indeed, bond yields have continued to rise in a slow and steady fashion since the onset of the pandemic. Today, the 10-year U.S. government treasury yield sits at 1.3%. This is the highest it's been since the onset of the pandemic.

These higher yields have made bonds more attractive relative to gold. Accordingly, investors looking to get out of equities now have an option better than gold. Bonds provide a rate of return that is reasonable enough to entice capital flows away from other alternative assets such as gold.

Generally, gold tends to outperform when real rates are negative. Real rates refers to interest rates, less inflation. Interest rates are a function of government bond yields. When these yields rise above inflation, investors are able to earn a positive "real" return on their money — that is, inflation-beating returns.

We're approaching a level where bond yields will approximate inflation. Thus, the gold trade appears to be under some pressure.

Today, the price of gold sits at around US\$1,780 per ounce. This is down from an all-time high seen last summer of above US\$2,000 per ounce. How much more downside is on the horizon is something I don't know. However, I think there's one catalyst that could be bullish for investors in miners like

Kirkland Lake right now.

U.S. dollar likely to underperform. Kirkland Lake likely to perform

Since gold is priced in U.S. dollars, as with other commodities, it tends to outperform when the U.S. dollar weakens. Accordingly, I see a lot of potential for upside on the horizon for gold miners like Kirkland Lake.

Whether or not a depreciating U.S. dollar will be enough to offset rising rates remains to be seen. However, Kirkland Lake's [value proposition](#) right now is too attractive to ignore. The company trades at only 12.7 times earnings — a dirt-cheap valuation relative to its fundamentals and cash flow potential right now.

Indeed, Kirkland Lake is one of the best gold miners on the TSX. In my view, no other gold miner comes close to providing the kind of value Kirkland Lake does.

Kirkland Lake's Detour acquisition raised some eyebrows in the sector. This has been another headwind this stock has faced recently. However, the company will need to continue to grow its reserves to make its business model sustainable long-term. Thus, I think more acquisitions are on the horizon.

For those bullish on gold, this is a good thing.

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chrismacdonald

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