



Contrarian Investors: Is Barrick Gold Stock Finally a Buy?

Description

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) took a beating in recent months after a strong run through the first part of the pandemic. Contrarian investors wonder if this might be a good time to put Barrick Gold stock on their [buy list](#).

Bond yield impact on gold prices

Gold recently slipped below US\$1,700 per ounce. That's well off the 2020 high around US\$2,080. The pullback appears due to several factors in the market. Some might present long-term headwinds, while others could simply be short-term blips.

Interest rates impact the price of gold. When rates are low, the opportunity cost of owning no-yield gold drops, making the precious metal more attractive. A global trend toward negative rates on government debt helped fuel the gold rally in the past couple of years.

Recently, however, treasury yields rose in the United States. In fact, the yield on the U.S. 10-year treasury increased from 0.52% in early August to the latest high above 1.6%. As bond prices drop, yields move higher. Gold's decline has followed that downward trend in bond prices. In fact, gold peaked right about the time the U.S. 10-year Treasury yield bottomed.

Rising bond yields indicate market expectation for inflation and a potential increase in interest rates by the U.S. Federal Reserve. Pundits have mixed views on whether the bond sell-off is warranted. The U.S. Fed says inflation could see a temporary pop due to stimulus efforts but remains committed to hold interest rates low through 2023.

A pullback in the U.S. Treasury yields could trigger a new rally in gold prices. An extended surge towards 2% in the 10-year Treasury would likely cause additional gold downside.

Crypto impact on gold

Bitcoin's surge might have contributed to the drop in the price of gold. Analysts speculate that investors who normally hold gold as protection against a falling U.S. dollar or for other safe-haven reasons are increasingly moving the funds to cryptocurrencies.

Central banks and other institutional gold buyers will likely stick with the yellow metal, at least over the medium term. Retail investors could increasingly shift from gold to Bitcoin.

The rising popularity of cryptocurrencies is worth considering when evaluating gold and gold stocks for your portfolio.

Should you buy Barrick Gold stock now?

Barrick Gold trades for \$25 per share at the time of writing compared to nearly \$40 last summer. The sell-off appears overdone.

Barrick Gold finished 2020 with zero net debt. The company is flush with cash and plans to give investors a return of capital distribution of US\$750 million in 2021. That's about US\$0.42 per share. The payout is in addition to the US\$0.09-per-share quarterly [dividend](#). Barrick Gold tripled the dividend since 2018, and more gains should be on the way.

Despite a challenging year, Barrick Gold met its 2020 production targets. In the [Q4 2020 report](#) Barrick Gold said annual free cash flow hit a record high of US\$3.4 billion in the year.

Barrick Gold expects to produce 4.4-4.7 million ounces of gold in 2021 compared to 4.76 million ounces last year. All-in sustaining costs are targeted at US\$970-1,020 per ounce.

Even if gold holds near US\$1,700 per ounce in 2021, Barrick Gold stands to generate significant free cash flow.

In addition, Barrick Gold expects copper production to be 410-460 million pounds. Copper prices recently hit multi-year highs. Fiscal stimulus measures should drive robust economic growth in the next few years. That bodes well for copper demand.

Ongoing volatility in the gold market should be expected, but Barrick Gold stock looks cheap right now.

If you are of the opinion that gold prices will remain near current levels or move higher through 2021 and into next year, Barrick Gold stock looks like a contrarian buy at the current price.

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