



A Cheap TSX Stock to Buy in April 2021

Description

Stock markets continue to hit new highs, but savvy investors can still find [undervalued stocks](#) in the **TSX Index**.

Why Barrick Gold might be a cheap stock right now

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) trades near \$25 per share at the time of writing compared to a 2020 high near \$40.

The price of gold fell from above US\$2,000 last summer to the current price near US\$1,700. The drop correlates quite closely with the plunge in bond prices and the resulting rise in treasury yields over the past several months. The U.S. 10-year treasury had a yield of close to 0.5% in early August. That's about the time gold hit its 2020 peak. Since then, bond prices have fallen and the 10-year yield is now around 1.7%.

Higher yields on treasuries can lure investment away from no-yield gold. As bond prices fall and yields rise, the opportunity cost of owning gold increases. The bond sell-off is occurring amid market speculation that inflation could rise at a faster pace than expected. This might force the U.S. Federal Reserve to raise interest rates earlier than previously anticipated.

The Fed has consistently said it doesn't intend to make a move before 2023, but the action in the bond market suggests traders are not convinced the Fed will sit on its hands that long.

Gold bulls say the pullback in bond prices is overdone and that a drop in yields is anticipated in the second half of the year. If that happens, gold could rise in the coming months. Even if inflation ramps up, gold might catch a tailwind anyway. The yellow metal has historically found favour as a hedge against inflation, although the value of the investing strategy has its critics.

Moves in the U.S. dollar also impact the gold market. Gold is priced in the American currency, so a drop in the value of the U.S. dollar against a basket of key foreign currencies often propels the price of gold higher. Analysts widely expect the [U.S. dollar index \(DXY\)](#) to fall after a Q1 rebound, as the global

economy recovers.

Risks

The rise of cryptocurrencies might be a risk for gold. There is a theory that Bitcoin and its peers are more popular than gold with younger investors. As large companies continue to announce stakes in Bitcoin and governments move to launch their own digital currencies, gold could lose its popularity as a store of value and a safe-haven asset. As a result, cheap gold stocks might get even cheaper.

It is too early to tell if the cryptocurrency mania is simply a fad or will endure over time.

Should you buy Barrick Gold stock now?

Barrick Gold finished 2020 with zero net debt. The miner generates strong margins at the current gold price and is becoming an attractive [dividend](#) stock. Barrick Gold tripled the size of the distribution since September 2018 and intends to give investors a special return of capital this year. The US\$750 million payout should be about US\$0.42 per share. That's in addition to the current quarterly dividend of US\$0.09.

Barrick Gold operates five of the top 10 gold mines on the planet and also has large copper operations. Copper prices soared in the past year and should see ongoing strength as stimulus measures kick into gear. The market might not fully appreciate the copper opportunity.

Volatility should be expected, but Barrick Gold appears undervalued at the current gold price. If you have some cash sitting on the sidelines, it might be a good time to add the stock to your portfolio.

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