



Can Gold Stocks Help You Fight Inflation?

Description

Inflation has reared its ugly head for the first time in over a decade. Many younger investors have never faced this invisible drain on their purchasing power. Now, they face months of price hikes and declining stock market returns. This is why investors need to turn their attention to the oldest safe haven on the market: gold stocks.

Gold is often considered a hedge against inflation. Theoretically, the value of gold appreciates when the value of currency depreciates. This creates a profitable environment for gold miners, pushing their stock prices higher.

Here's a closer look at the recent performance of Canada's largest gold miner and why investors should add it to their watch lists in 2021.

Barrick gold stock

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) has had a rough 2021, struggling to rise past the \$30-a-share level. While the stock has recouped a substantial amount of the losses accrued in the first quarter of the year, it is still down by about 10% year to date and down by [more than 30%](#) from 52-week highs.

That's despite the fact that inflation has accelerated in recent months. The issue seems to be gold's range-bound market price.

Gold prices impact

Barrick's underperformance has come at the backdrop of gold price retreating from record highs of US\$2,072 registered last year. However, gold prices appear to have stabilized above the US\$1,700-an-ounce level, probably because investors expect inflation to be transitory.

If the price of gold remains above the US\$1,750-an-ounce level, Barrick Gold remains well positioned to generate an enviable amount of free cash from its vast network of gold mines. The company owns five of the top gold mines on the planet, thus it is well positioned to generate

[significant revenues](#) on gold prices edging higher.

The company is in a good financial position, having entered 2021 with zero net debt. Consequently, a good chunk of the revenues generated will end up supplementing the company's dividend program.

While Barrick's [dividend yield of 1.7%](#) is not that much, it's higher than most savings accounts at the moment. It's also likely to jump higher, as the company generates more profits in the months ahead.

Valuation

Barrick gold is a cheap gold stock, as it's currently trading with a price-to-sales multiple of three and price-to-book multiple of two. With gold prices finding support above the US\$1,700-an-ounce level, it is turning out to be a smart bet, as it is well positioned to generate significant revenues and long-term shareholder value. Additionally, the stock is trading at a discount after a 30% pullback from 52-week highs.

Bottom line

Inflation is higher than expected, but the price of gold hasn't kept up. That's probably because the market expects inflation to be transitory. If investors are wrong and inflation remains stubbornly high, gold prices could skyrocket. If inflation is transitory and gold prices remain stable, miners like Barrick still face higher margins and more profits ahead.

It's a win-win situation, which is why Barrick Gold stock should be on your watch list if you're seeking a safe haven in 2021.

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