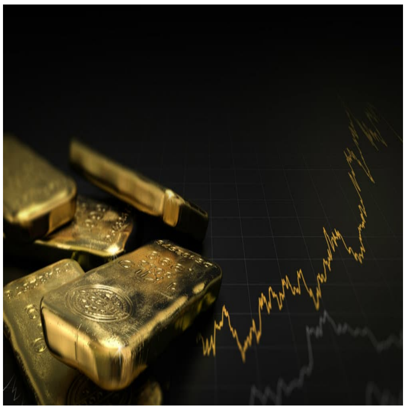

Gold Surges: Time to Buy Gold Stocks?

Description

Gold is up 2% after the U.S. Federal Reserve and the Bank of England indicated they are not in a hurry to start raising interest rates.

Gold price

The price of gold jumped 2% or US$35 to US$1,799 per ounce, reversing a big decline the previous day. Investors dumped the precious metal on fears the U.S. Federal Reserve would move up its guidance on rate hikes to head off inflation. In its November 3 statement, the American central bank said it planned to start reducing its bond-buying program, but remains of the opinion that inflation above its target rate of 2% will be transitory.

The Bank of England also decided to keep its rates steady. Analysts had speculated England might lead the way among a handful of rich countries in kicking off rate hikes as the pandemic recovery takes hold.

Why interest rates matter

Gold doesn't pay you anything to own it. In fact, its costs money to store physical gold in a secure place. With interest rates at near-zero levels in most of the world, the opportunity cost of owning gold is low and the metal is widely viewed as a safe-haven asset.

As interest rates increase, the returns on fixed income alternatives tend to go up. This increases the opportunity cost of owning gold and can be a headwind for gold prices.

Inflation hedge

Interestingly, gold is also considered to be a good hedge against inflation. The theory has its critics, but investors broadly see gold as a good way to protect buying power. Gold is priced in U.S. dollars. When the value of the dollar decreases against a basket of core international currencies, the price of gold often rises, which helps U.S. investors.

International buyers of gold who use currencies that tend to fall in value against the dollar over time benefit buy owning gold as a way to protect their wealth.

Should you buy gold stocks now?

Gold will continue to be volatile, but gold miners are making good money at US$1,800 per ounce and the stock prices across the industry appear undervalued.

Barrick Gold (TSX:ABX)(NYSE:GOLD), for example, just reported solid Q3 2021 results that beat consensus estimates. Adjusted earnings for the quarter were US$419 million or US$0.24 per share, slightly ahead of expectations.

Free cash flow came in at US$481 million. Barrick Gold reported all-in sustaining costs of US$1,034 per ounce in the quarter, so margins are good at the current gold price.

Barrick Gold pays a quarterly dividend of US$0.09 per share that it says is sustainable. If gold holds its current price or moves higher in 2022 the company could easily bump up the payout. Barrick Gold gave investors an extra bonus in 2021 through a special US$750 million return of capital. That worked out to US$0.42 per share.

The balance sheet is in great shape and Barrick Gold continues to make its operations more efficient. The company also owns six of the top 10 tier-one mines on the planet.

The bottom line on top gold stocks

Barrick Gold trades near $23.50 per share on the **TSX** at the time of writing. It was $40 when gold hit US$2,080 in 2020. Gold is only down 13.5% from that point, so the pullback in Barrick Gold appears overdone.

The entire gold sector looks undervalued at current gold prices. If you are a gold bull and like contrarian picks, Barrick Gold or a gold miner ETF deserves to be on your radar today.

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