Are Gold Stocks Too Cheap to Ignore?

Description

Gold stocks are down significantly in the past month on a pullback in the price of gold. Investors who missed the rally at the start of the year are wondering if the sector is undervalued and if this is a good time to buy gold miners for their portfolios.

Gold market outlook

Gold trades for close to US$1,830 per ounce at the time of writing compared to more than US$2,000 in early March. A rally in the value of the American dollar against a basket of major currencies is largely responsible for the recent pullback in the gold price. The U.S. dollar index soared from 98 at the end of March to a recent level of 105. That's the highest the dollar index has been in 20 years. At the time of writing, the dollar index is close to 104.

Gold trades in American dollars, so a strengthening of the dollar against other currencies makes gold more expensive for buyers who hold those currencies.

The pullback in the price of gold might be near its end, even if the U.S. dollar maintains its strength. Fears are mounting that the war in Ukraine could continue for months and potentially draw in other countries. If the situation deteriorates further, gold could see new demand, as investors seek out safety for their cash.

On the inflation front, gold is widely viewed as a safe-haven asset to help offset the impact of inflation. Central banks are ramping up interest rates to try to bring inflation down, but economists are increasingly concerned that elevated inflation will be around for longer than originally anticipated. This could provide an added tailwind to gold, although higher interest rates also bump up the returns on fixed-income investments that compete with gold for funds. Gold doesn't pay you anything to own it, so the opportunity cost of holding gold rises, as fixed income returns move higher.

Another potential driver of gold demand in the coming months could be the unwind of the cryptomarket. **Bitcoin** and other digital currencies have plunged from their record highs. If the correctionturns into a full-blown cryptocurrency crash, investors and fund managers might shift cash back to gold.

Should you buy gold stocks now?

Gold miners have made good progress on cleaning up their balance sheets and continue to generate strong returns at the current gold price. **Barrick Gold** (TSX:ABX)(NYSE:GOLD), for example, went from a debt load of more than US$13 billion to zero net debt thanks to the rebound in the gold market and an aggressive turnaround plan that saw the company sell non-core assets and streamline its operations.

Barrick Gold is now focused on generating free cash flow and returning capital to shareholders. The company raised its quarterly base dividend from US$0.09 to US$0.10 per share this year and implemented a dividend bonus plan that gives investors an extra quarterly payout of up to US$0.15 per share based on the net cash position at the end of every quarter. Investors will receive an extra US$0.10 payment for Q1 2022.

Barrick Gold trades near $26.50 on the TSX at the time of writing. The 2022 high is $33.50, so there is decent upside potential if gold renews its rally.

Ongoing volatility should be expected, and investors need to be gold bulls to buy the gold miners. If you are in that camp, this might be a good time to add some gold exposure to your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker

2. kduncombe

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/21
Date Created
2022/05/18
Author
aswalker