



## Gold Stocks: Is the Gold Pullback Over?

### Description

Gold stocks bounced on Friday after a multi-week downturn that followed the decline of the price of gold. Investors who missed the rally earlier this year are wondering if gold stocks are [undervalued](#) and now a buy.

### Gold price

The price of gold bounced in recent days after the U.S. inflation report for May showed a continued rise in prices. Inflation in the United States hit a 40-year high of 8.6% on a year-over-year comparison for the month of May. Markets had expected to see an indication that the upward momentum in the cost of living had peaked in April. That's not the case and there is now concern that June or July won't be the peak, either.

Bargain hunters moved into gold on the news, pushing the price of the yellow metal up to US\$1,875. Gold has actually been trending higher for a month after dropping to less than US\$1,810 on May 12 after the surge above US\$2,000 that occurred in early March.

Gold is widely considered to be a decent hedge against inflation, especially for holders of currencies that tend to slide in value against the American dollar. The precious metal is priced in the American currency.

On the other side of the currency impact, a rising dollar can sometimes put pressure on the price of gold. That hasn't been the case of late. Interestingly, the high inflation number lifted the value of the Dollar Index to a one-month high, so gold is seeing strength, despite the dollar tailwind.

This could indicate funds are moving back into the gold trade at a strong pace, despite the higher cost for non-dollar buyers. One reason might be the weakness in cryptocurrencies. **Bitcoin** is at its lowest price in more than a year, dropping below US\$28,000 and way below the November peak of US\$67,000. If the crypto crash picks up steam, gold could catch a new tailwind.

Gold is also viewed as a safe-haven asset. Demand on this front can offset currency effects. The

Dollar Index has been on an upward trend for the past two years, while gold has traded in a range roughly between US\$1,700 and US\$2,050 per ounce.

## Gold stocks

Gold stocks bounced last week but remain significantly below their 2022 highs. **Barrick Gold** ([TSX:ABX](#)) (NYSE:GOLD), for example, trades near \$27 per share on the TSX at the time of writing. That's up about 13% year to date but still down from the \$33.50 it hit a few months ago.

Gold companies have done a good job of shoring up their balance sheets in recent years and are driving efficiency into their operations. Barrick Gold has zero net debt after a multi-year turnaround effort that saw the company sell non-core assets and eliminate a debt burden that was as high as US\$13 billion.

Management is focused on delivering high returns on the remaining assets and generating strong free cash flow for investors. Barrick Gold raised the dividend by 11% for 2022 and implemented a dividend bonus program that pays investors up to an extra US\$0.15 per share per quarter on top of the US\$0.10 base dividend depending on the net cash position at the end of the three months. The Q1 2022 bonus is US\$0.10 per share.

## Should you buy gold stocks now?

Volatility in the gold market should be expected, but stocks such as Barrick Gold appear undervalued and could deliver strong capital gains through the end of the year. If you are a gold bull and are of the opinion that gold will move back to US\$2,000 per ounce, Barrick Gold and its peers deserve to be on your radar.

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