Are Gold Stocks Now a Buy?

Description

Gold stocks are down considerably from their 2022 highs. The price of gold remains at very profitable levels, and investors who missed the rally early in the year are wondering if this is a good time to add gold miners to their portfolios.

Gold price

Gold trades near US$1,845 per ounce at the time of writing compared to a high above US$2,000 it reached in 2020 and again a few months ago at the outset of the war in Ukraine. Gold demand often rises in times of geopolitical uncertainty. The war in Ukraine could last through the end of next year, according to some analysts. This could put added pressure on inflation as key commodity prices rise, potentially driving the world into a recession, as central banks are forced to increase interest rates more than anticipated.

In the event Russia threatens to use nuclear weapons or expands the invasion to another country, gold could spike back above US$2,000.

On the inflation front, persistent high prices could provide gold with a steady tailwind. Central banks hope they can reduce inflation through interest rate increases, but supply-chain issues and commodity shortages could keep prices high despite these efforts. Gold is widely viewed as a hedge against inflation. The metal and other commodities are priced in U.S. dollars, so holders of other currencies that typically lose value against the dollar could increase gold purchases.

Finally, the meltdown in cryptocurrencies could drive a return of funds to gold. Some pundits are of the opinion that significant retails and institutional money moved out of gold to play the rally in **Bitcoin** and other digital currencies in recent years. The steep plunge in the values of digital currencies over the past few months could force investors to reconsider gold as an alternative asset.

Should you buy gold stocks now?

Gold producers have done a good job of cleaning up their balance sheets in recent years and most are now focused on delivering strong returns on invested capital and generating free cash flow that can go into the pockets of investors.

Barrick Gold (TSX:ABX)(NYSE:GOLD), for example, went from being saddled by US$13 billion in debt to its current position of zero net debt. The company streamlined operations and is returning cash to investors through a base dividend plus a bonus dividend that is determine by the size of the net cash position at the end of each quarter. The board raised the base dividend by 11% to US$0.10 per share this year and announced an extra US$0.10 per share for Q1 2022.

Barrick Gold generates strong margins at current gold prices and has the potential to be a free cash flow machine if gold moves back to US$2,000 per ounce and remains near that level.

The stock currently looks undervalued at $25.50 on the TSX. Barrick gold traded as high as $33.50 earlier this year.

Volatility should be expected, but if you are a gold bull the gold miners appear undervalued now and should be solid picks for a buy-and-hold portfolio.

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