Why Is Barrick Gold (TSX:ABX) Stock Down 40% in 5 Months?

Description

Inflation in the United States reached 9.1% in June, and the U.S. reported negative gross domestic product (GDP) growth for the second straight quarter. The fears of recession and rising prices have pulled investors' attention to safe-haven assets like gold and real estate. Historically, gold has outperformed when something goes horribly wrong. Then why is **Barrick Gold** (TSX:ABX)(NYSE:GOLD) stock down 40% from its March high?

Why is gold falling despite rising inflation?

Gold is considered a hedge against inflation. But it has failed to play this role in many crises because of the wider adoption of fiat currency that allows governments to print currency without any backing of gold. Gold is a non-income-generating asset that gives returns when its price fluctuates.

Gold price is inversely proportional to the U.S. dollar. If the dollar strengthens, the gold price falls, and vice versa. This inverse relationship is the result of the 1944 Bretton Woods agreement, under which the world's developed countries agreed to peg the exchange rate for all currencies to the U.S. dollar instead of gold. Even though this agreement ended in the 1970s, the dollar had become the world's dominant reserve currency, as most currencies were exchanged against the dollar. Today, around 40% of the world's debt is in U.S. dollars.

Some oil-producing countries' currencies were stronger than the U.S. dollar. But the U.S. dollar strengthened against them after the shale gas exploration in 2016 reduced America's dependence on oil and gas imports. The strengthening of the dollar made U.S.-denominated loans more expensive. In 2016, Russia and China called for a one-world currency that is not backed by a nation, but to no avail.

The U.S. dollar at a 20-year high in 2022

In 2022, the U.S. has become the world's largest exporter of liquefied natural gas (LNG), especially to Europe, weakening the euro against the dollar. Europe's U.S. dollar-denominated debt is rising, as Europe is importing oil and gas from the United States at a higher rate.

On top of that, the U.S. Fed's rising interest rates are reducing the supply of dollars. The dollar is at a 20-year high. Higher interest rates on the dollar have made it an attractive investment over non-producing gold.

Hence, the gold price keeps falling, while the U.S. dollar continues to strengthen. The U.S. dollar index surged 10.4% year to date, which is pretty high for an index that moves little. Is this the peak for the U.S. dollar?

It is difficult to say, because the U.S. dollar's strength depends on the economic development of its nation. The United States is better off than Europe and China, which are suffering from energy crises and COVID lockdowns, respectively.

Should you buy Barrick Gold stock?

The strengthening of the dollar would ease if the U.S. economy falls into a deep recession, and that is when the gold price will rise. Many analysts and economists compare today's scenario with the 1970s recession. Gold prices surged over 600% between 1976 and 1980, as the U.S. dollar weakened when the U.S. Fed increased interest rates up to 20% to fight the 13.5% inflation. A similar inverse dollar and gold price momentum was seen in the 2008-09 crisis when the U.S. dollar weakened.

This shows that gold still pays off big when a crisis hits and the U.S. dollar and the stock market crash. Barrick Gold stock has surged 82% in two months (March 15 to May 15, 2020) after the pandemic crash. The stock traded around its high till November 2020, when the vaccine news pulled the stock market out of the pandemic dip.

Barrick Gold stock moves in tandem with the gold price. Unlike physical gold, which does not generate income, Barrick Gold stock gives you an annual dividend yield of 2.62%. The company also gives a special performance dividend if its net cash increases.

Now is the time to buy Barrick Gold stock as insurance against a deep recession. When the stock jumps 80-100%, you can sell it and protect your returns, because the stock will fall when the dollar strengthens with the economy.

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