Gold Stocks That Could Soar if the Fed Pauses Rate Hikes

Description

Gold stocks have been such a disappointment lately. This commodity is supposed to fare well in choppy markets, with inflation surging, geopolitical tensions high, and a recession on the way. But it's done nothing but sag lower in recent quarters. Undoubtedly, gold hasn't delivered for hedging investors .

Many may be wondering if it's even worthwhile to hang onto the shiny yellow metal. Indeed, it's costly to store the metal securely and to pay an MER (Management Expense Ratio) of 0.3-0.4% just to gain exposure. Perhaps Warren Buffett was right in thinking that gold is a lousy asset.

Despite gold's weak performance, I think it's time to go against conventional wisdom here. Sure, gold is out of favour, but it's a proven store of value, and it may have legs as the U.S. Federal Reserve pauses its rate hikes, either later this year or early next year.

The case for a Fed pause could be golden for gold stocks

Further, the red-hot U.S. dollar could have room to cool off. If anything, a Fed pause may be needed to avert a greenback that's too strong. Strong greenbacks tend to inflame global markets with excessive anxiety, and that's the last thing the Fed wants at this juncture.

Inflation is a beast that must be tamed, but global market stability may be too high a price to pay.

In any case, gold may be a speculative asset that's still worth nibbling on if you lack exposure to precious metals. At the end of the day, it's a lowly-correlated asset. And one that can pay you to wait if you obtain your exposure via gold-mining stocks.

Bullion will cost you money to store, while mining stocks will pay you cash dividends.

Gold may be speculative in nature in the sense that exogenous factors move its price. Still, whenever you can get it at a low point and improve your diversification prospects while getting paid to do so, I'd argue it's a bet worth making.

Barrick and Agnico stocks: Sticking with the mature gold producers

At the moment, I'm a fan of any well-run miner. Specifically, I like mature, lower-cost producers that can continue to improve efficiencies. **Barrick Gold** (TSX:ABX)(NYSE:GOLD) and **Agnico Eagle Mines** (TSX:AEM)(NYSE:AEM) are two gold heavyweights that could shine bright if gold rallies in the face of a "Fed pause" over the next 18 months.

Now, Barrick and Agnico stocks will provide a choppier ride than gold bullion. Miners are levered up and some chop should be expected. With so much pessimism already baked in, and with ABX and AEM stock both down around 45% from their highs, it's arguable that the price of admission is too good to pass up in the face of potential catalysts.

ABX yields a handsome 2.4% dividend, while AEM sports a 3.7% dividend yield. Indeed, both plays are bountiful for contrarians. Both stocks also trade at one times price-to-book (P/B) at the time of this writing.

Between the two, I'd have to side with Agnico Eagle for the higher dividend yield. With last year's Kirkland Lake merger, I think Agnico has a lot more to offer in the capital gains front as well. This merger establishes the new Agnico Eagle as the gold industry's highest-quality senior producer, with the lowest unit costs, highest margins, and most favourable risk profile.

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2. NYSE:AEM (Agnico Eagle Mines Limited)
3. NYSE:B (Barrick Mining)
4. TSX:ABX (Barrick Mining)

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