TSX Gold Stocks Are Falling: Should You Buy?

Description

Be it tech stocks or utilities, consumer names or gold, this year has been a terrible one for growth as well as defensive stocks. Traditional safe-haven gold provides valuable shelter when markets turn uncertain. However, this year has brought no respite, even for gold investors. The yellow metal has dropped 12%, while gold miner stocks have lost 20% in 2022.

Gold and gold miner stocks keep digging deeper

But why has gold been out of favour this year? And if almost all the stocks and sectors are tanking, where is the big money going?

It is going to the safest investment avenue — U.S. government bonds. Despite record-high inflation and rising recession rhetoric, investors are favouring U.S. Treasuries this year.

Thanks to the Fed's aggressive interest rate hikes, Treasury yields have soared to decade-high levels this year. To be precise, the U.S. 10-year Treasury yield jumped to 4.3% last week from its lows of 0.6% during the pandemic in 2020. So, investors can earn 4.3% with Treasury yields essentially risk-free, making non-yielding gold a less-appealing investment.

And the trend could continue for at least the next few quarters. Despite rapid rate hikes this year, the Fed has not seen any significant success in bringing inflation down.

The Russia-Ukraine war could be seen as a major reason behind this adamant inflation in the U.S. and in Europe. With oil prices still close to triple digits and unending supply chain woes, inflation will likely be a big problem for the next few months. So, central banks across countries expect to continue with their stance of policy tightening.

TSX gold stocks

That leaves gold and miner stocks in soup. As they are already trading close to multi-year lows, the downside could be limited. But there is a large possibility that they might not see a meaningful recovery anytime soon.

One of the biggest gold miners, **Barrick Gold** (TSX:ABX) has dropped from $33 levels in April to $19 last week. Almost all gold stocks have been equally weak in this period. Besides lower gold prices, Barrick's lower production in the first quarter (Q1) of 2022 also weighed on its stock.

However, it intends to produce 4.3 million ounces of gold in 2022. In the last 12 months, Barrick Gold reported a net income of US$2 billion on total revenues of US$11.8 billion.

One of the biggest gold streamers, **Wheaton Precious Metals** (TSX:WPM) has also been no exception. It has declined 17% this year and has relatively outperformed traditional gold miner stocks.

Streamers are relatively less risky, as they don't directly own or operate mines. They pay upfront fees to third parties for a portion of the output. This minimizes operational and political risk to a large extent. Streamers like Wheaton have outperformed peers in the long term because of their superior earnings growth and healthier margins profile.

Conclusion

Note that gold stocks could change course if investors turn to safe havens amid a severe recession. A serious economic downturn will likely force central banks to pause or invert their rate-hike cycle, which will be a key positive development for the bullion. However, that still seems like a distant possibility for now.

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