

Ian Williams on Asset Allocation



A lacklustre performance by gold and silver prices this year, despite multiple ongoing geopolitical issues, has renewed questions about the relevance of precious metals as a major investment class. But the case for a meaningful exposure to gold and silver, preferably through a portfolio of high-quality mining shares, remains compelling.

A wider perspective on the recent price action provides some clues. Gold's recent weakness follows a strong upward spike in early 2016 when it surged from \$1,050 to \$1,350.

Currently about \$1,200, it has given back some gains due to a rampant dollar and slack interest from the investment sector, which is unlikely to improve until the equity bull market turns. Still, our cycle analysis suggests gold remains in a primary long-term bull market that will peak early next decade.

Interestingly, while gold has weakened when measured in US dollars, it has stayed stable against the Chinese yuan, having traded between 8,100 and 8,400 yuan over the past few months. The fall in gold's dollar price has been matched cent for cent by a fall in the yuan versus the greenback.

This unusual pattern strongly suggests some sort of official intervention to maintain the yuan's value against gold even as it has slipped against the dollar. This notion is reinforced by speculation the Chinese are preparing to formally peg their currency to gold in the next year or so.

Bull Points

Output has peaked for all time and in long-term decline

Gold is ultimately a good long-term hedge against global currency turmoil

Bear Points

Weak investment demand due to current lack of investor interest

Few inflationary pressures at present

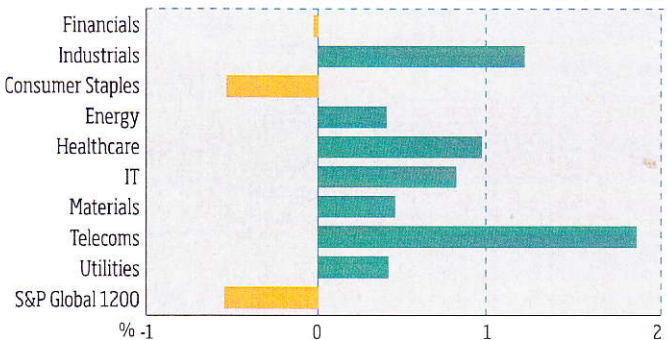
Recall the US dollar was gold-backed until 1971. If China does embrace the gold standard it will be the biggest event for the metal in decades, with long-term bearish implications for the dollar as it will be the beginning of the end for the greenback as the world's sole reserve currency. It is therefore bullish for gold & silver when priced in US dollars.

Fans of technical analysis should also note years ending in eight (ie 1998, 2008, etc) tend to see sharp summer sell-offs in gold and silver, followed by declines in global equity markets a few months later, and then a surge higher by gold and silver in the following year.

Precious metals look set to return to centre stage soon.

Ian Williams is chairman and CIO of Charteris Treasury Portfolio Managers

S&P Global 1200 sector returns



9 September 2018 - 15 September 2018. Source: Morningstar