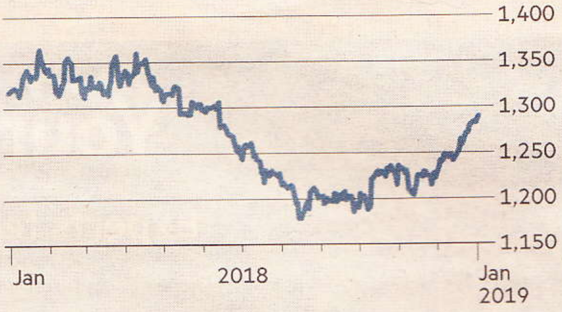
The surge in gold

Spot price ($ per ounce)



Source: Bloomberg

What does the chart show?
The gold price rose to its highest level in six months this week as investors sought safety from turbulent global stock markets.

The metal reached $1,287.31 an ounce on Wednesday, its highest level since June 2018, and rose further on Thursday to $1,287.66 an ounce. The rise comes after a steady decline in the price of gold since the start of the year following interest rate rises in the US, denting the appeal of non-interest earning assets such as gold.

The sudden clamour for gold in recent weeks was prompted by the global market sell-off, which boosted demand for so-called "safe-haven assets".

BullionVault, an online market for precious metals, said the total volume of gold bought on the site rose by 10 per cent between the start of September and December 28, when it hit a 15-month high.

What happened in markets to trigger the gold rush?
The end of the year often brings with it a so-called "Santa rally" — a rise in stock prices over the month of December. Instead, investors rounded off the worst year for global stock markets since the financial crisis with the market equivalent of a lump of coal in their stockings.

The US S&P 500 and Japanese Topix index fell by almost 10 per cent over December according to brokerage Stifel, while the FTSE 100 lost almost 4 per cent over the month. European stock markets fell too. The MSCI Europe index lost 4.5 per cent over the month following a weak economic performance from the eurozone.

The start of January also brought weak economic data from China, further souring investor sentiment. The country's privately owned manufacturing sector contracted for the first time in 19 months, compounding fears about the impact of the country's trade war with the US. The Shanghai Shenzhen CSI 300 index fell on its first day of trading. All of that made investors nervous and sent them flocking to assets perceived as safer.

What do investors like about gold?
Investors often flock to gold because it is a good diversifier and is seen as a store of value. It can perform well in times of market crisis. The price of gold tends to move in a different direction from other assets including stocks and bonds, making it a good hedge against poor performance in other parts of a portfolio. The gold price also performs well when deflation hits and holds its value during times of uncertainty in markets.

How have gold funds performed recently?
Investors can gain exposure to gold by buying gold mining shares, funds that invest in them, gold bullion or exchange traded commodity products that track the gold price.

In December, gold funds performed well. The best-performing funds of any sector were all gold funds. Between November 30 and December 31, HC Charteris Gold & Precious Metals fund delivered a total return of almost 12 per cent and Investec Global Gold fund returned 11.6 per cent.

BlackRock Gold & General also returned just under 10 per cent, while funds including Quilter Investors Previous Metals Equity also performed well. However, over the full year, HC Charteris Gold & Precious Metals lost 16.3 per cent and BlackRock Gold & General lost 11.1 per cent.

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