Gold hits six-year high amid increased global tensions

Lauren Mason

08 July 2019

The price of gold is set to continue its rally thanks to a "perfect storm" of dovish noises from the US Federal Reserve, a stagnating US dollar and ongoing geopolitical tensions, according to some investment professionals who are increasing their exposure to the yellow metal.

However, other multi-asset managers warn the prospect of rising US Treasury yields, or an extended truce in the US-China trade war, pose too much of a risk to continue upping gold exposure in portfolios, particularly as its spot price already surpassed $1,400 for the first time in more than six years last month.

On 20 June, gold's spot price reached the psychologically important $1,400 mark, following the US Federal Reserve's dovish policy statement the previous day, which also coincided with European Central Bank (ECB) President Mario Draghi's pledge to leave the door open for further ultra-loose monetary policy.

> **Year-to-date, the gold price is up 10.83%, taking into consideration a two-month dip through March and April."**

At the time of writing (4 July), the gold price stands at $1,425.10 and increased by 6.97% in June alone. Year-to-date, the gold price is up 10.83%, taking into consideration a two-month dip through March and April.

Given its volatile nature and the fact its price has spiked so sharply over the last month, can investors expect gold to continue to rally?

Research from asset management firm DWS found that, while the gold price is higher than it has been for six years, it is still more than 25% down from its 2011 peak.

Over the past ten years, however, the S&P 500 has risen by 220% excluding dividends to reach almost 3,000 index points, while the gold price has only risen by 40%.

The research team at DWS said: "It [cannot] be said that the lower gain was compensated by higher security, which is what gold owners usually look for - at least, if you measure uncertainty in volatility. The two asset classes do not differ much from each other in the long run; Lower returns with the same risk - who might want that?

"Overall, gold investors must make do with the joy of a year in which the price has risen by about 10%."

However, research from WisdomTree suggests there is further upside to come. The firm's quantitative framework - which takes into account several price drivers including changes in the US dollar basket, the Consumer Price Index and nominal yield changes on 10-year US Treasuries - has resulted in a forecast the gold price will reach $1,480 by the end of Q2 2020.

Nitesh Shah, director of research at the firm, said: "We think gold prices are likely to continue to rise, reflecting the fact gold is under-priced with Treasury yields this low and speculative positioning in the futures market quite high. Risks of policy error could send the metal even higher, and if geopolitical tensions rise, with say the trade war truce faltering, we could see even more upside for gold.

"Inflows into WisdomTree gold ETPs were over $1.05bn in H1 2019. That is the highest level of half-yearly flows since H2 2016. Most of the flows came in the past month as gold experienced a 'perfect storm' of US Treasury yields dropping as the Fed flipped to a dovish stance, dollar appreciation abated and geopolitical tensions surged."

Mobius Capital Partners founder Mark Mobius also recently told Bloomberg that he expects gold's price to continue its climb, potentially topping $1,500 an ounce, while recommending every portfolio has at least 10% exposure to the commodity.

Ian Williams, CEO and lead manager of the HC Charteris Gold and Precious Metals fund, said a fundamental factor helping gold is the rising expectation of a new round of interest rates cuts and the resultant weakness in the US dollar.

He added: "These factors will continue to push [the gold price] higher. Although gold has also appreciated by about 9% in US dollar terms this year, it remains significantly below its US dollar peak."

Craig Brown, investment specialist for the Rathbone Multi-Asset Portfolios and Managed Portfolio Service, has increased exposure to gold across portfolios throughout 2019 via the iShares Physical Gold ETC. The funds' exposures sit at just over 2% in Enhanced Growth, just under 2.5% in Strategic Income, just under 3% in Strategic Growth, and around 5% in Total Return.

A version of this article was first published by Investment Week, a sister title to International Investment