Macro Microscope

The role of Gold

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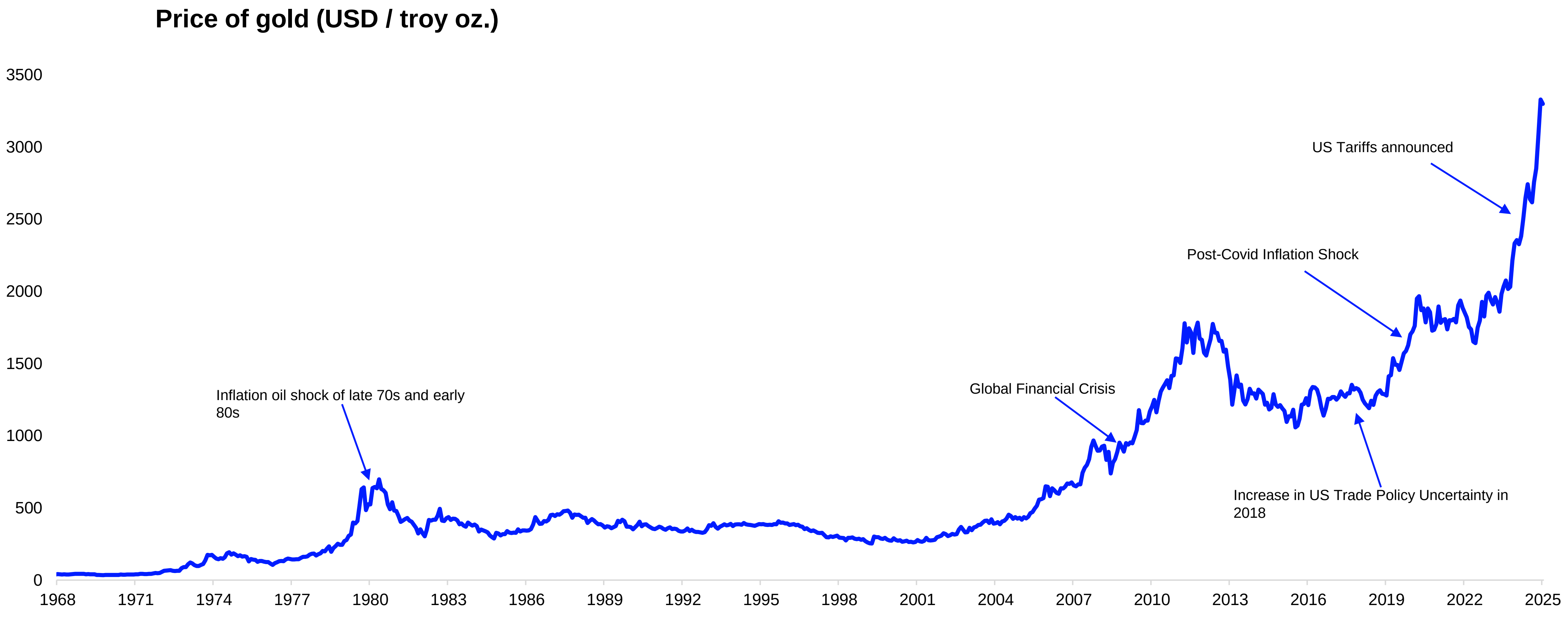
Gold performance in historical context – a reliable hedge against shocks?

- **Gold has performed well as a hedge against sticky inflation, and economic uncertainty (GFC, Covid, tariffs)**
- But gold underperformed during the more stable and ‘lowflation’ era from the 1990s - 2008



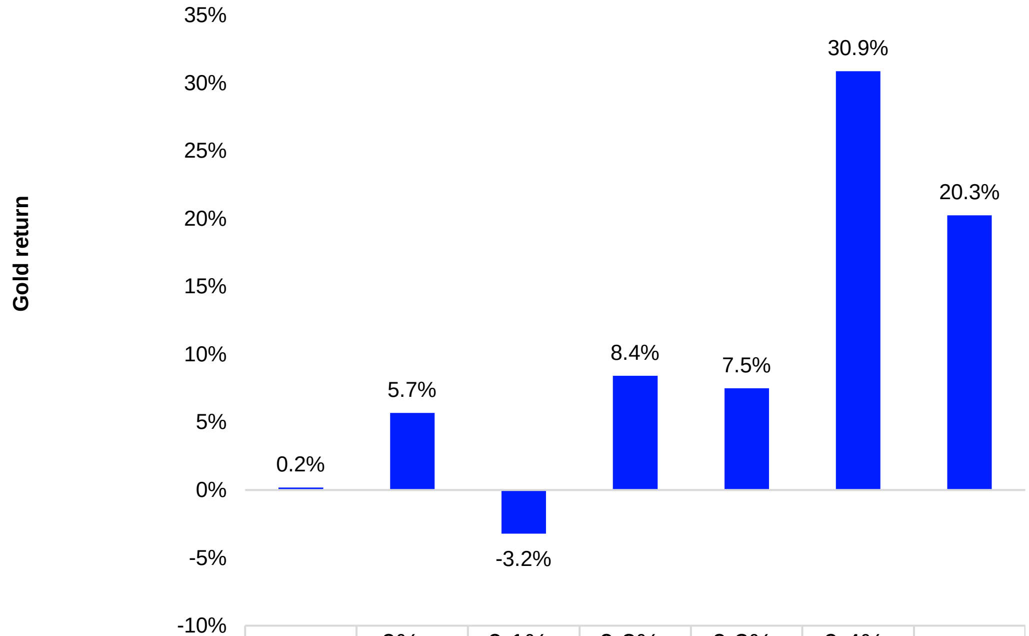
FTSE Russell, LSEG, and Economic Policy Uncertainty, April 30, 2025

[Gold in a fragmented world: Safe haven and strategic asset]

Gold has performed best in moderate inflation as a store of value, but is a long-established effective safe haven

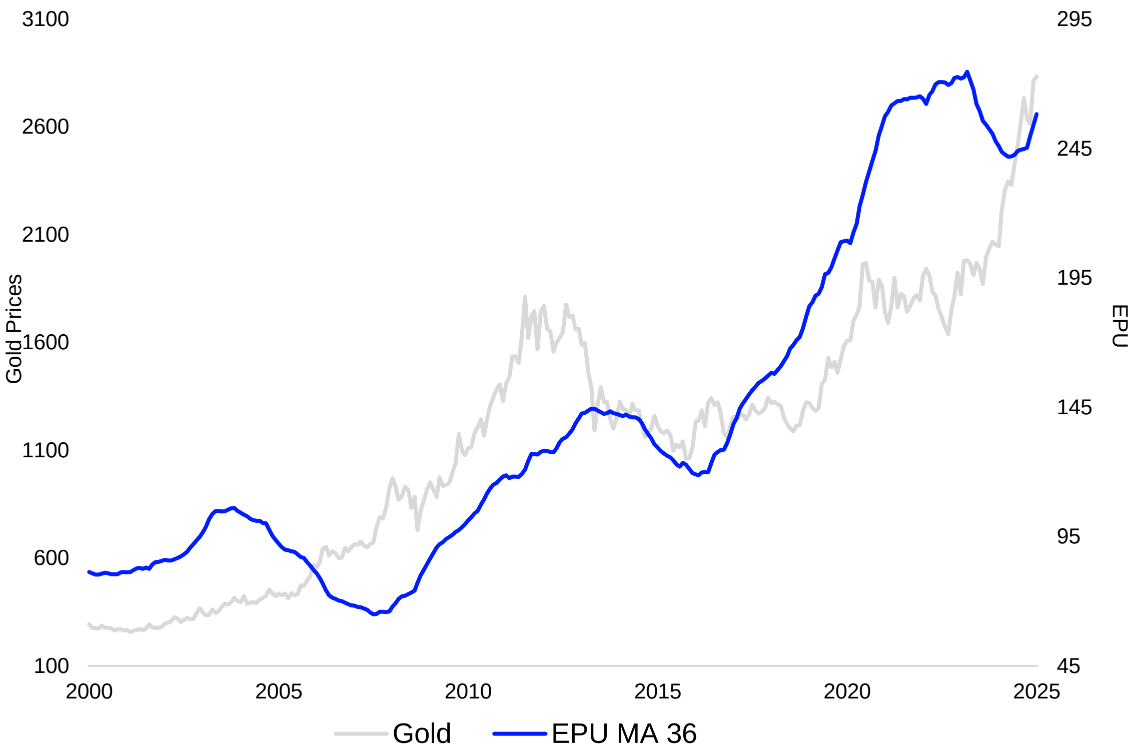
- **Best gold returns have occurred in moderately high inflation** (0.4%–0.5% monthly CPI, or **about 5.5% per annum**). Fed easing cycles and low real yields also drove strong gains.
- Gold has shown **strong positive correlation with policy uncertainty** - highlighting its tactical hedging and safe-haven role.

Average gold return, by monthly US CPI inflation bucket, 1968-2025



	<0%	0% - 0.1%	0.1%-0.2%	0.2%-0.3%	0.3%-0.4%	0.4%-0.5%	0.5%>
Gold Returns (1M)	0.2%	5.7%	-3.2%	8.4%	7.5%	30.9%	20.3%
Count	73	49	106	146	85	67	158

Gold Price (USD/troy oz) and EPU index (36-month mov. ave, RHS)



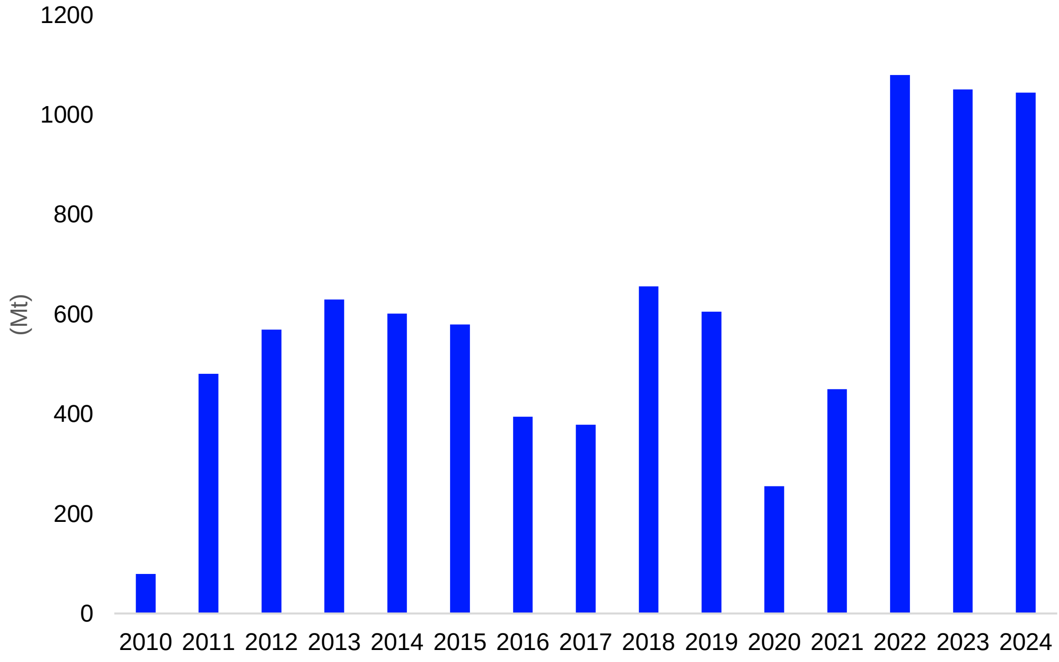
[Gold in a fragmented world: Safe haven and strategic asset]

FTSE Russell, LSEG, and Economic Policy Uncertainty, March 31, 2025. For internal use only

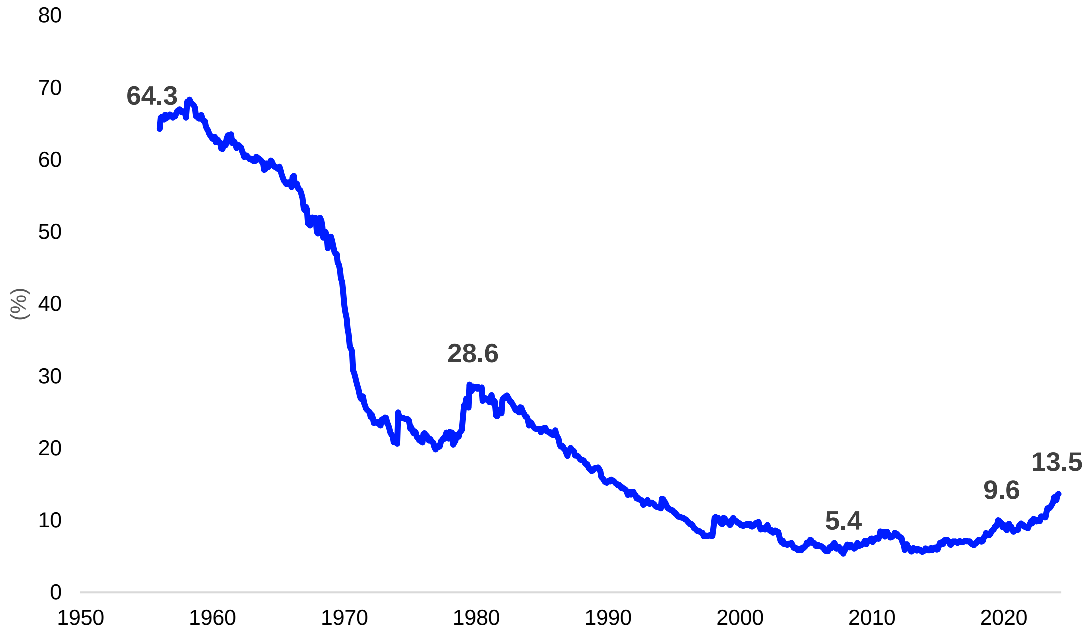
Growing central bank demand, led by EM, suggests new structural demand that could increase ?

- **EM central banks increased gold reserves by 132% since 2021**, led by India (+38%) and China (+17%), this seems a strategy to diversify reserves into a global asset, with no borders.
- **Gold backs 13.5% of central bank balance sheets (up from 9% in 2020)**, reflecting its growing role as a hedge against inflation and trade uncertainty

Central bank purchases (metric tons)



Gold Reserves % of Total Reserves



[Gold in a fragmented world: Safe haven and strategic asset]

Source: World Gold Council, IMF, as of March 31, 2025

Gold's low correlation with other asset class returns enhances its role as a portfolio diversifier

- **Gold shows low correlation with other asset classes**, even if correlations increased post-Covid.
- Rolling correlations show **persistent weak alignment with US large caps and other commodities**

Correlation of asset class returns, monthly returns, 5-years

Correlation matrix	Gold	All-World	US Govt 7-10yr	US ILB	World HY	Infrastructure	Crude Oil
Gold	1.00	0.22	0.41	0.44	0.34	0.35	-0.14
All-World	**0.22**	1.00	0.58	0.73	0.87	0.79	0.26
US Govt 7-10yr	**0.41**	0.58	1.00	0.85	0.64	0.56	-0.17
US ILB	**0.44**	0.73	0.85	1.00	0.77	0.69	-0.01
World HY	**0.34**	0.87	0.64	0.77	1.00	0.70	0.25
Infrastructure	**0.35**	0.79	0.56	0.69	0.70	1.00	0.10
Crude Crude	**-0.14**	0.26	-0.17	-0.01	0.25	0.10	1.00

Source: FTSE Russell, LSEG, as of April 30, 2025

Superior performance of a 60/20/20 portfolio, including gold, vs a standard 60/40 portfolio

- **The 60/20/20 portfolio outperformed the traditional 60/40**, delivering 7.5% **annual returns** and a Sharpe ratio of 0.38, versus 6.3% and 0.25 for 60/40 – with only a marginal increase in volatility.
- Gold's benefit was most evident post-2020, cushioning losses when equities and bonds fell together, & enhancing portfolio resilience in volatile macro environments.

Portfolio performance statistics (2010- 2025)

Annualised Returns	Annualised Return	Annualised Volatility	Sharpe Ratio
60 / 40 Portfolio	6.3%	8.01%	0.25
60/20/20 Portfolio	7.5%	8.55%	0.38

*60-20-20 = 60% equities, 20% govt. bonds, 20% gold prices

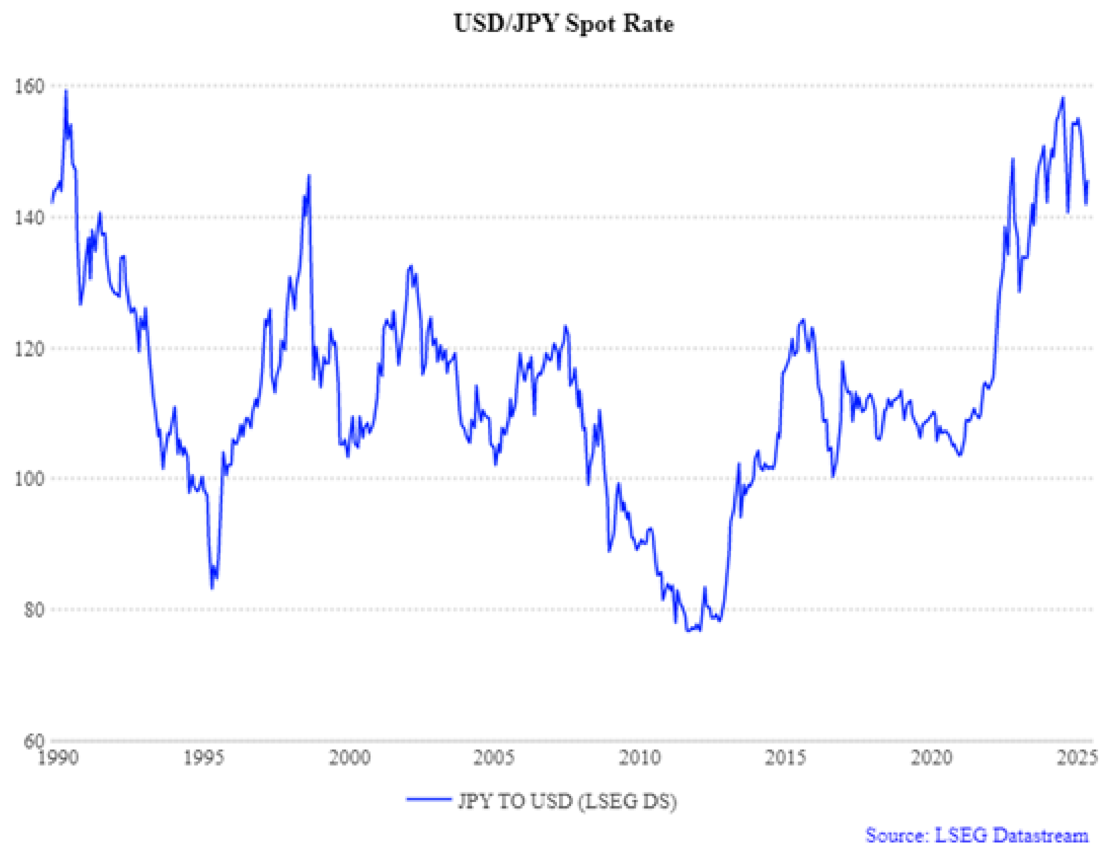
*60/40 = 60% equities, 40% govt. bonds

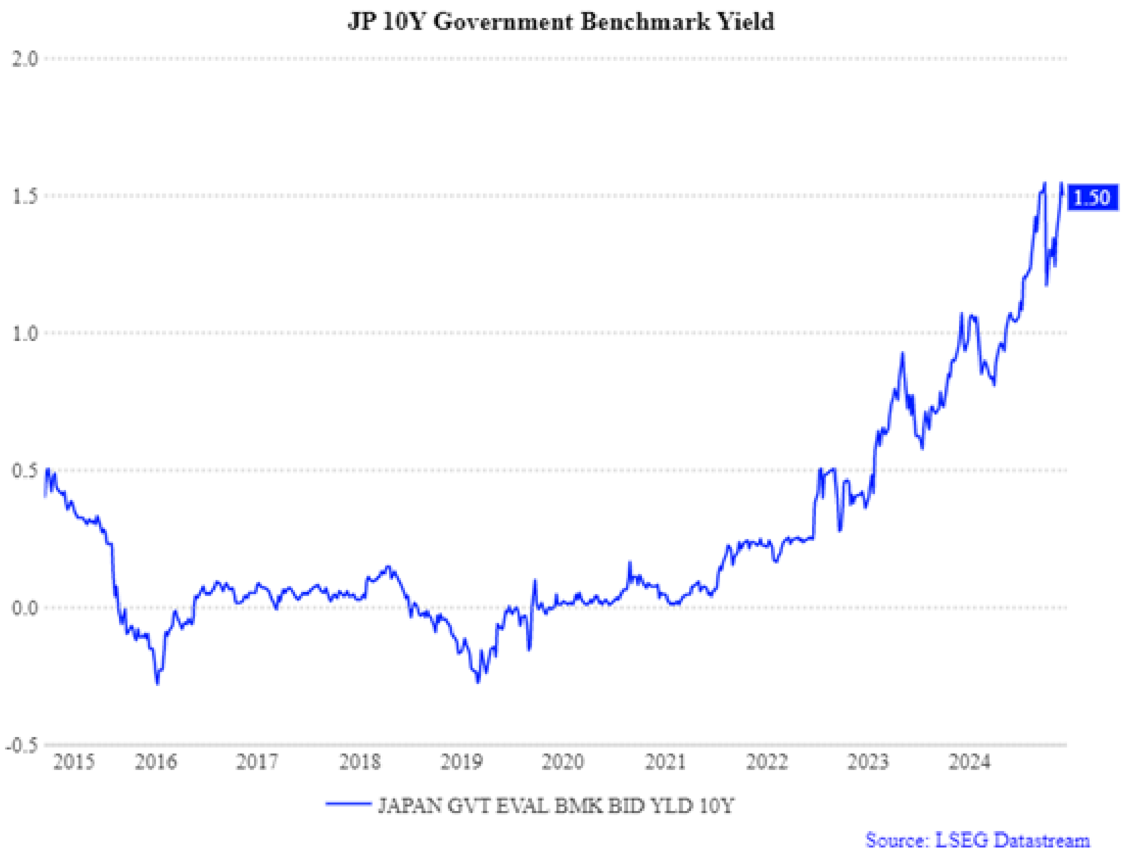
Gold in a fragmented world: Safe haven and strategic asset

Source: Portfolio allocations use FTSE All-World Equities, FTSE World Government Bonds, and spot gold prices to represent global equities, bonds, and gold exposure, respectively

Market Background – increased Japanese market volatility

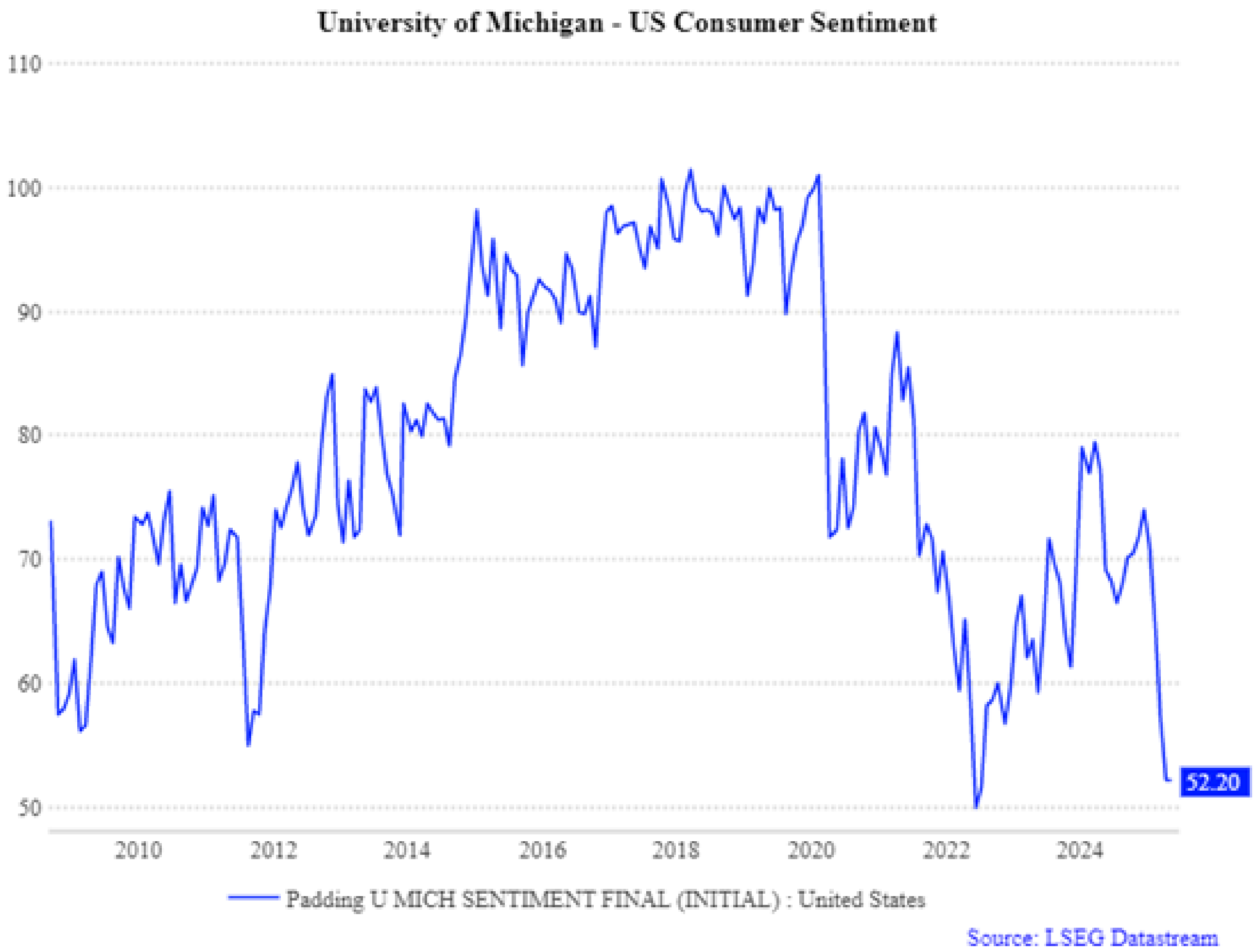
- JPY near historic lows, even with BOJ raising interest rates and decreasing interest rate differential with USD
- JP government benchmark yields increasing to highest levels in 10 years, with bond auctions low bid cover ratios





US Consumer Sentiment lows – U Mich Sentiment for May showing weakness

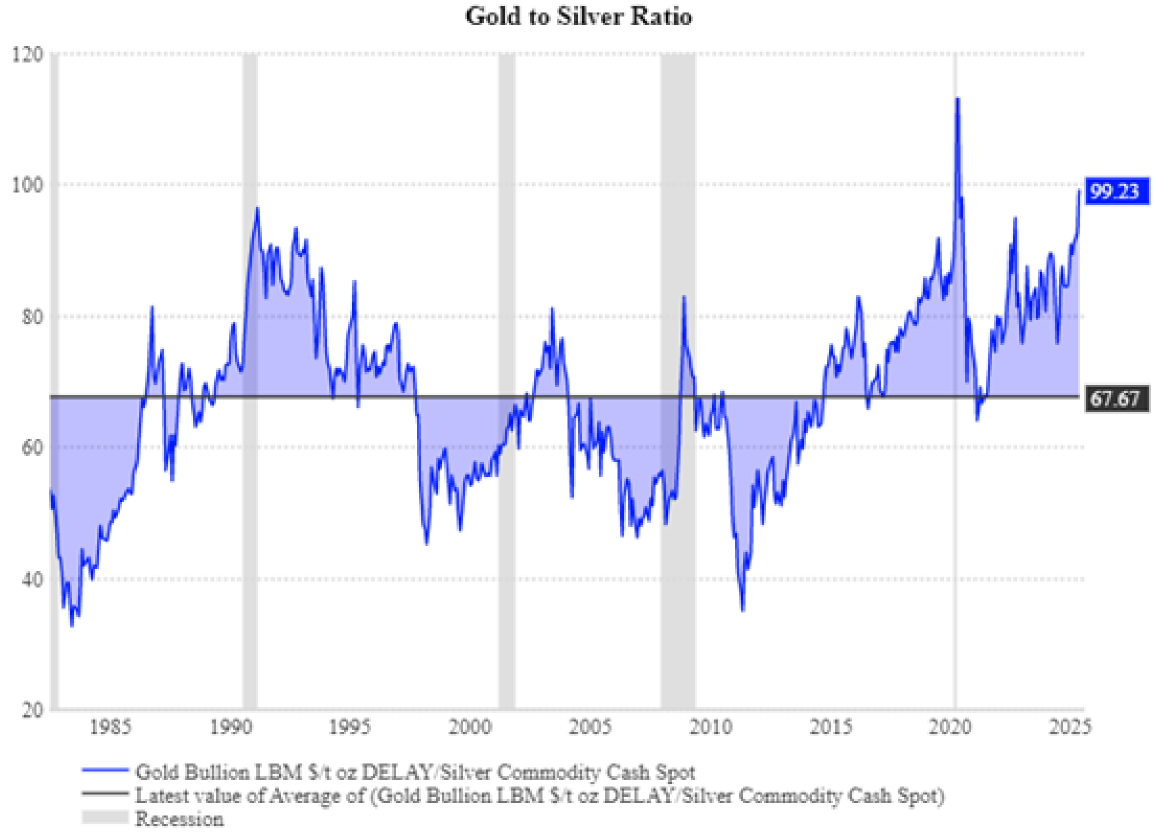
- The May reading near lows last seen in June 2022
- Concerning given the ability of the US Consumer to keep the US economy ticking over



Gold relative to Silver

- Gold outperforming relative to Silver
- Assessing the Gold/Silver ratio shows second highest value, when considering the Covid spike

Source: LSEG Datastream



Source: LSEG Datastream

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