

Macro Microscope

The role of Gold

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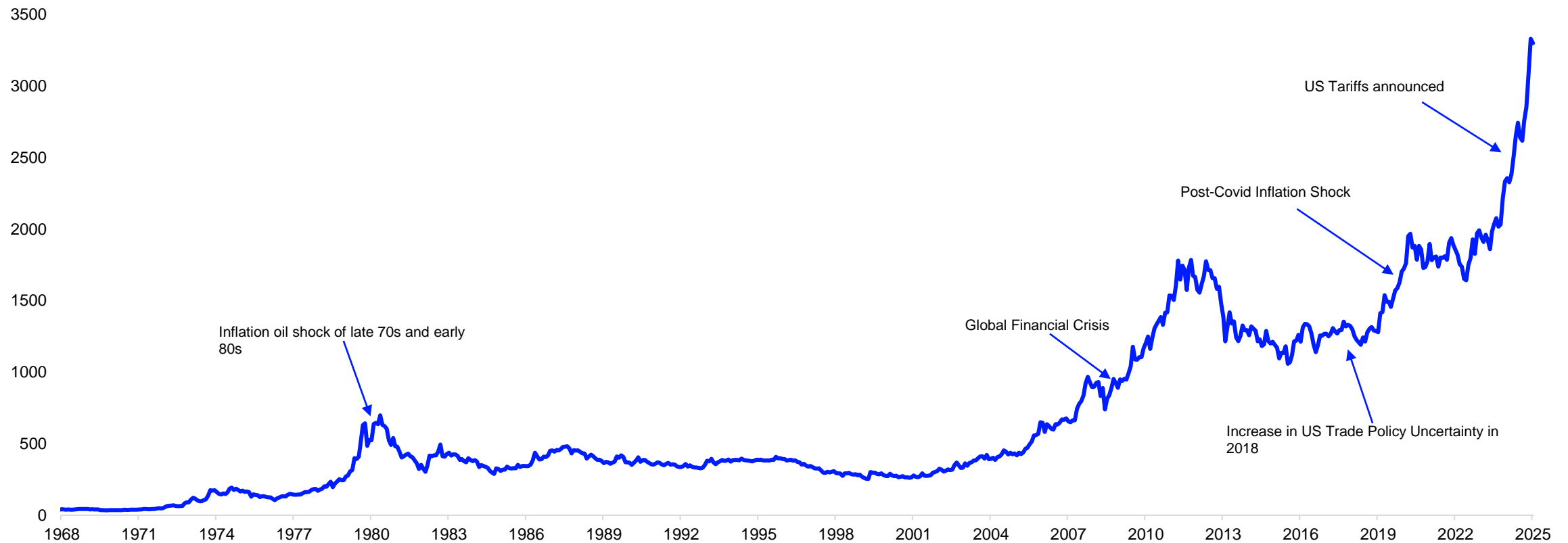
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Gold performance in historical context – a reliable hedge against shocks?

- **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

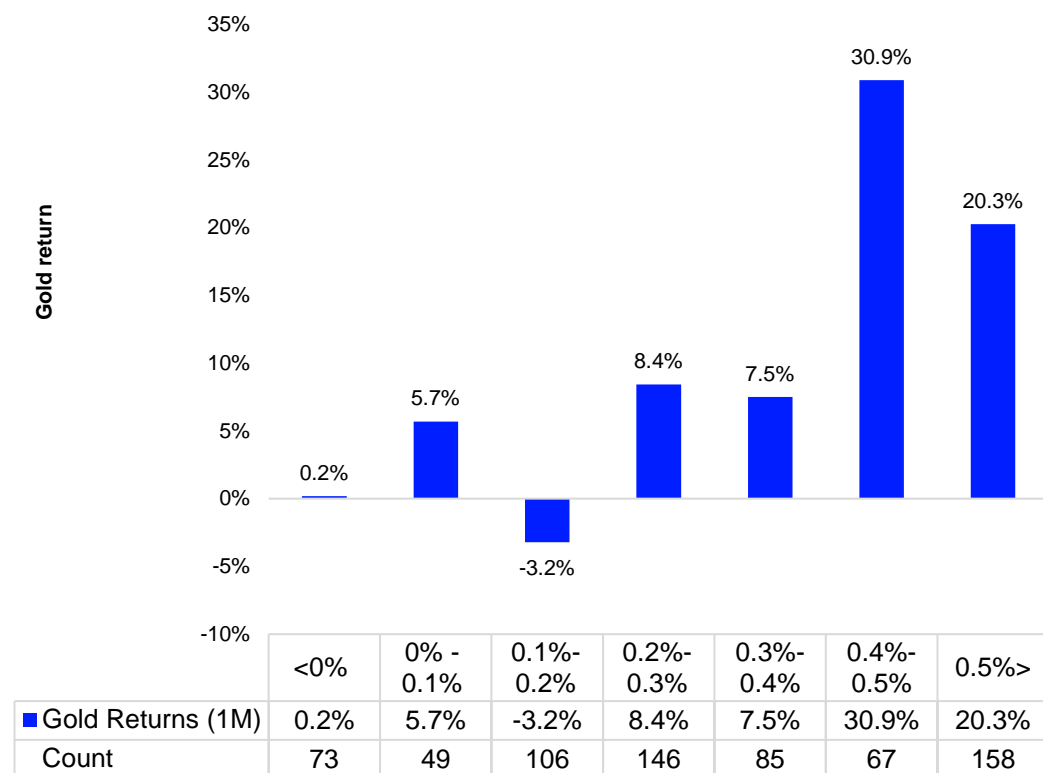
Price of gold (USD / troy oz.)



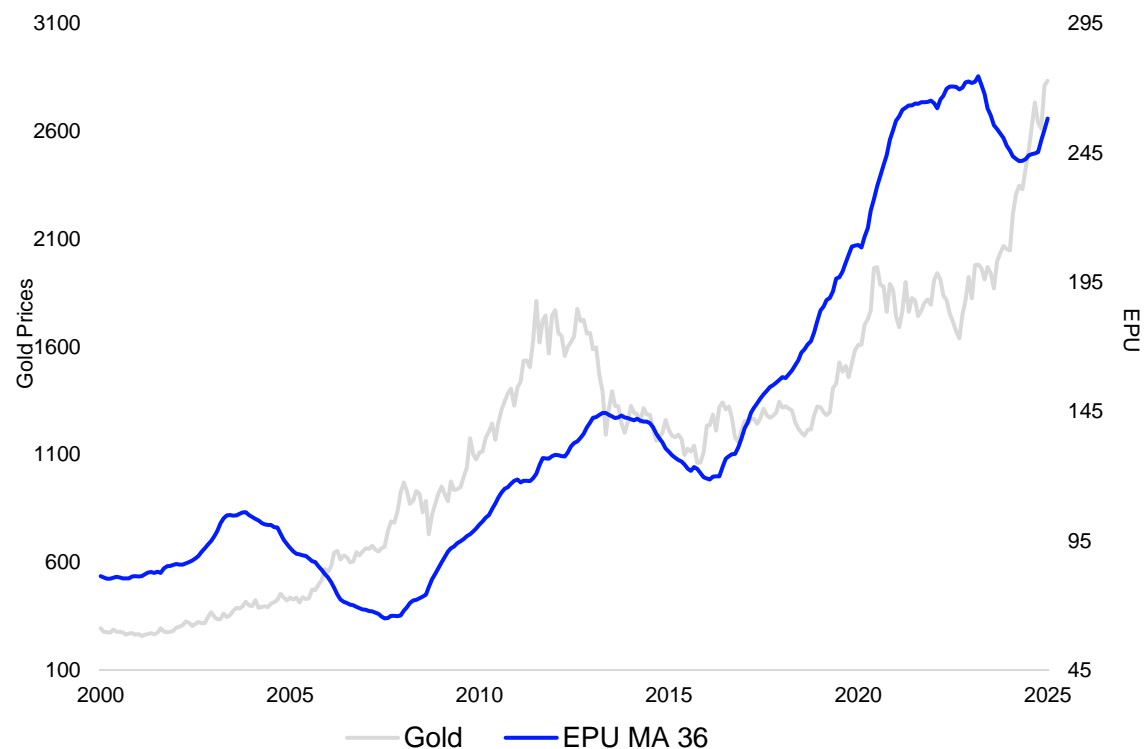
Gold has performed best in moderate inflation as a store of value, but is a long-established effective safe haven

- **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



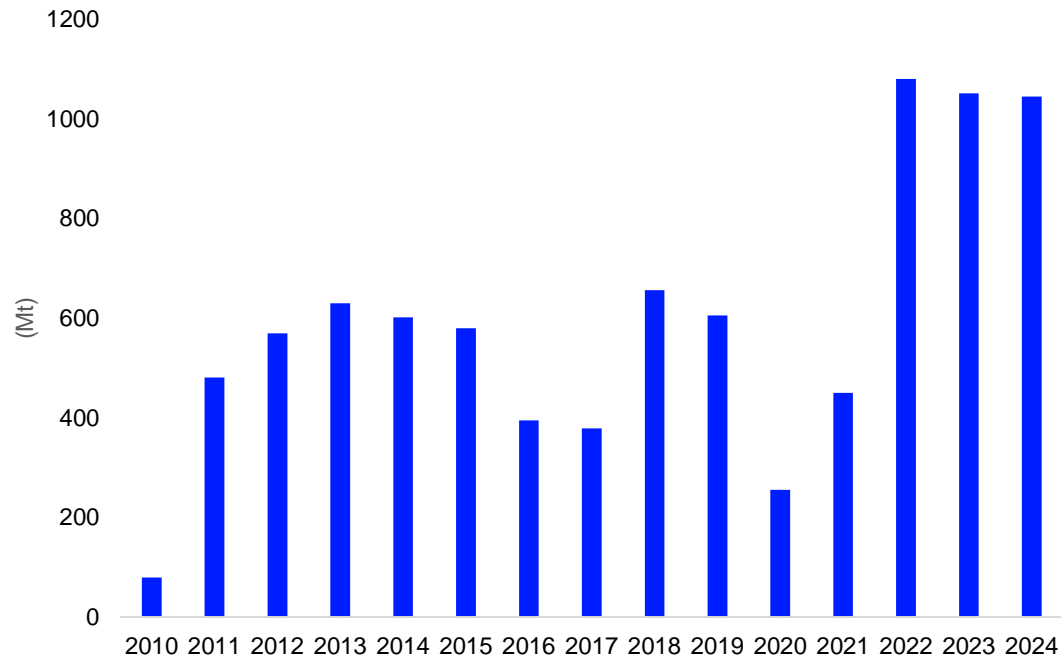
Gold Price (USD/troy oz) and EPU index (36-month mov. ave, RHS)



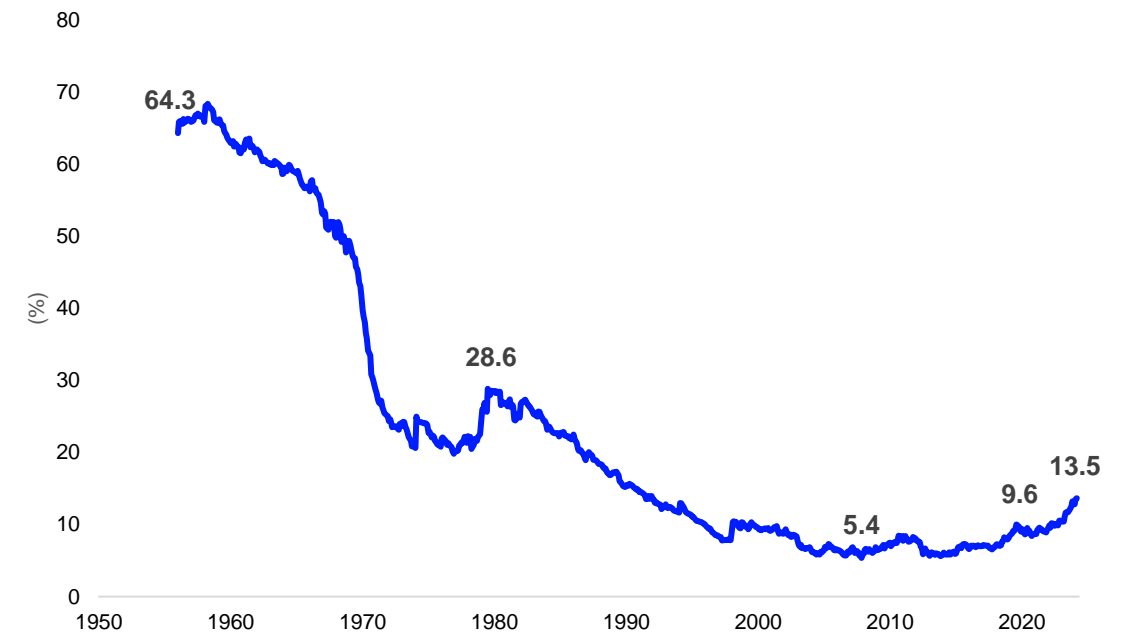
Growing central bank demand, led by EM, suggests new structural demand that could increase ?

- **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'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

FTSE Russell 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

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](#)

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

USD/JPY Spot Rate



Source: LSEG Datastream

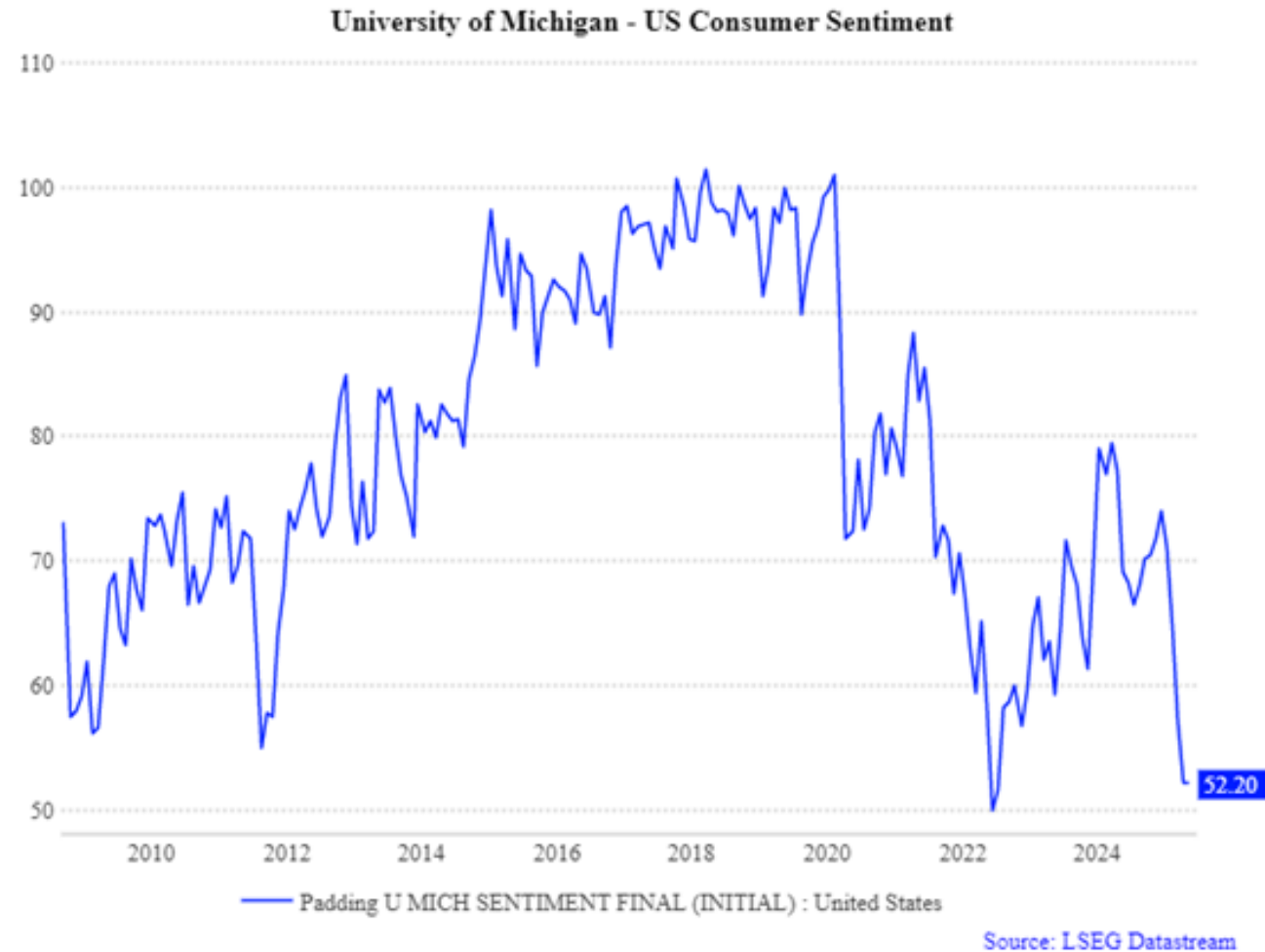
JP 10Y Government Benchmark Yield



Source: LSEG Datastream

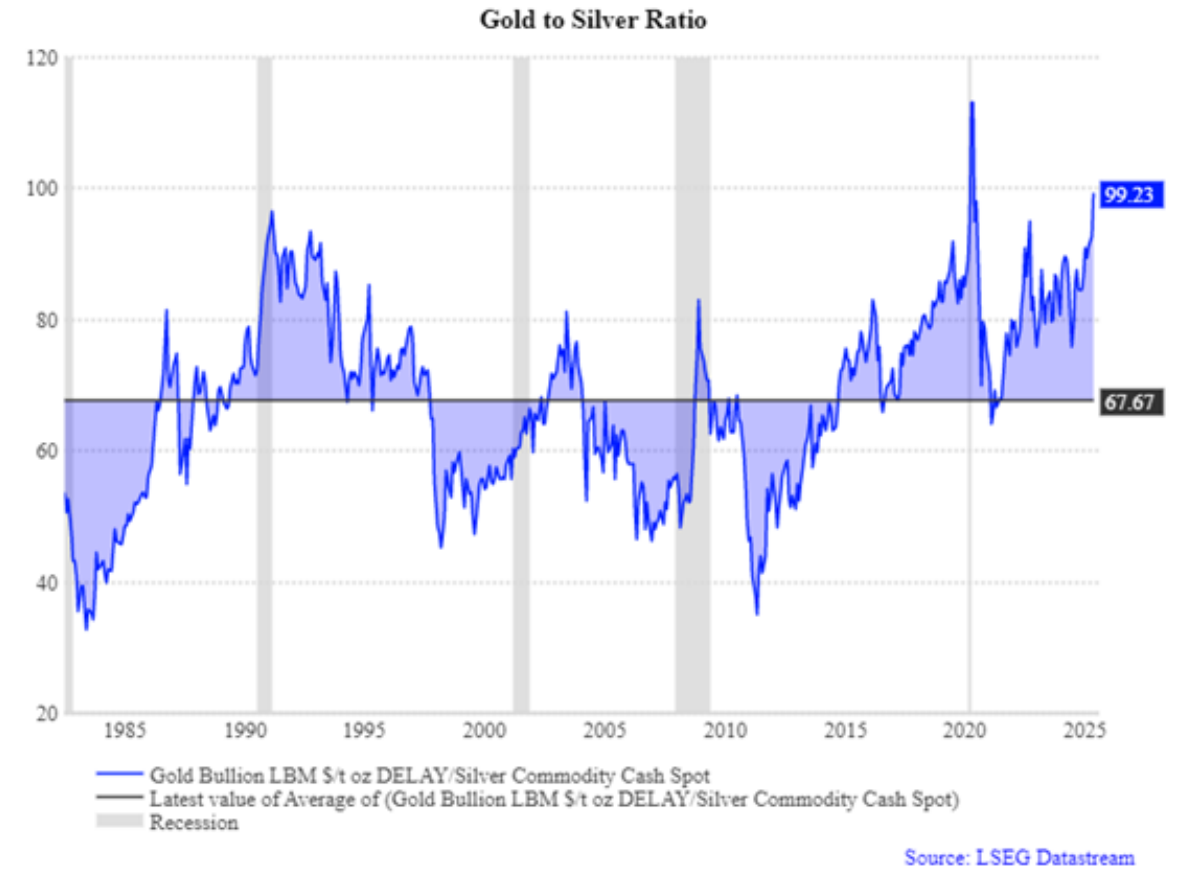
US Consumer Sentiment lows – U Mich Sentiment for May showing weakness

- 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



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