MARKET INSIGHT

A glittering 6 months for gold

It is fair to say that over the last year, financial markets have taken investors on a rollercoaster ride, with markets rising, then tumbling, before recovering to reach all-time highs once again. But through all this, one of the only asset classes that has steadily risen to cut through the volatility is gold. We are pleased to say we joined this trade early, investing through gold-related equities as well as directly via an Exchange-Traded Commodity (ETC) product, and while a lot of asset classes have made a lot of money this year, gold has undoubtedly come to life in recent months and has powered TAM's performance over the first half of 2019.

Back in September last year when equity markets were at all-time highs, the outlook for global growth still looked rosy and geopolitical tensions were put on the back burner, the demand for safe haven investments like gold was nowhere to be seen – why would you invest in an asset that pays no dividends or interest when equity and debt markets are offering more? Unsurprisingly, the gold price had fallen significantly over the course of the year, reaching lows of around $1,184 per ounce by mid-August, which is where we reviewed our opportunity to invest.

Gold really came into its own in Q4 last year when global stocks suffered their worst quarterly fall in seven years. Gold has continued to strengthen into 2019 despite the stock market's rebound (see FOMO article), as central banks have united on signalling more accommodative monetary policy to come, while government debt is still returning practically nothing. All these factors combined have caused the demand for gold. At the time of writing, the price of gold has risen above $1,400 per ounce, representing a price appreciation in the region of 20% since August last year.

Our combination of direct exposure to the physical metal, along with a more price- sensitive gold fund for more risk-oriented investors predominantly in the equity of gold mining companies, has been a solid contributor to performance this year. While returns in the UK equity market have been fairly subdued relative to international equities and while returns from UK government debt have been lacklustre at best, gold has been the rising star, highlighting its worth as a diversifier with the ability to buck the trend when other markets are heading south.

When we consider the world is drawing nearer to a global recession as evidenced by weaker economic data releases, as well as ongoing geopolitical tensions clouding the investment horizon, we can be forgiven for remaining cautious and wanting to protect our client's assets. What's more, with interest rates looking like they are staying lower for longer, the opportunity cost of holding gold – foregoing the income return on debt investment – is declining.

While we have recently banked some profits in the asset class after an impressive run of performance, our intentions are to hold gold for the long-term. Our view was that US and Chinese presidents would come to some sort of amicable agreement regarding trade at the G20 summit which took place in the final days of June, which would cause assets prized for their safety such as gold to fall, which indeed we have briefly witnessed.

We will continue to look for periods of weakness in the gold price that stem from fleeting changes in sentiment, mainly centred around geopolitics, to re-inflate our positions. We will also consider alternative commodities, such as silver, as more speculative investments which may be primed for a breakout, taking the baton from gold to sustain the current rally which we believe has further to go.

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