

A glittering six months for gold

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. 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 many asset classes have made a lot of money this year, gold has undoubtedly come to life in recent months and has certainly contributed to 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, thus 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 and investor looked again for 'safe haven' investments. Gold has continued to strengthen into 2019 despite the stock market's rebound supported by a number of factors including speculation that the US Federal Reserve having paused in its interest rate hikes may even become more accommodative later in the year potentially pressuring the dollar. Additionally, other defensive assets, such as government bonds which having rallied hard this year offer little in the way of yield, look less attractive and promote precious metals as an alternative. At the time of writing, the price of gold has risen above $1,415 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 more price sensitive gold-related equity funds, has been a solid contributor to performance highlighting its worth as a diversifier with the ability to buck the trend when other markets are heading south. As markets grow more concerned about the potential for global recession and ongoing geopolitical tensions, we can be forgiven for remaining cautious and wanting to protect our client's assets. 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, we believe, declining. Whilst 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.

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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