

Gold: Unique in every way

Published 28 February 2024

Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

Pierre Debru

Head of Research, WisdomTree Europe.

Key Takeaways

- In the financial world, its unique behavioural traits make it a perfect diversifier to a portfolio.
- It has exhibited equity-like returns of +8.5% per annum over the last 20 years with very minimal downside capture.
- Related Products WisdomTree Core Physical Gold, WisdomTree Physical Swiss Gold, WisdomTree Physical Gold - GBP Daily Hedged, WisdomTree Physical Gold - EUR Daily Hedged Find out more

Gold is a special asset. Simultaneously a commodity and a foreign exchange instrument. Cyclical and defensive at the same time. Used as a store of value and medium for exchange for millennia. With references to the metal in the Torah, Bible, Qur'an and Bhagavad Gita, its historical allure to humans verges on empyrean.

Different and resilient

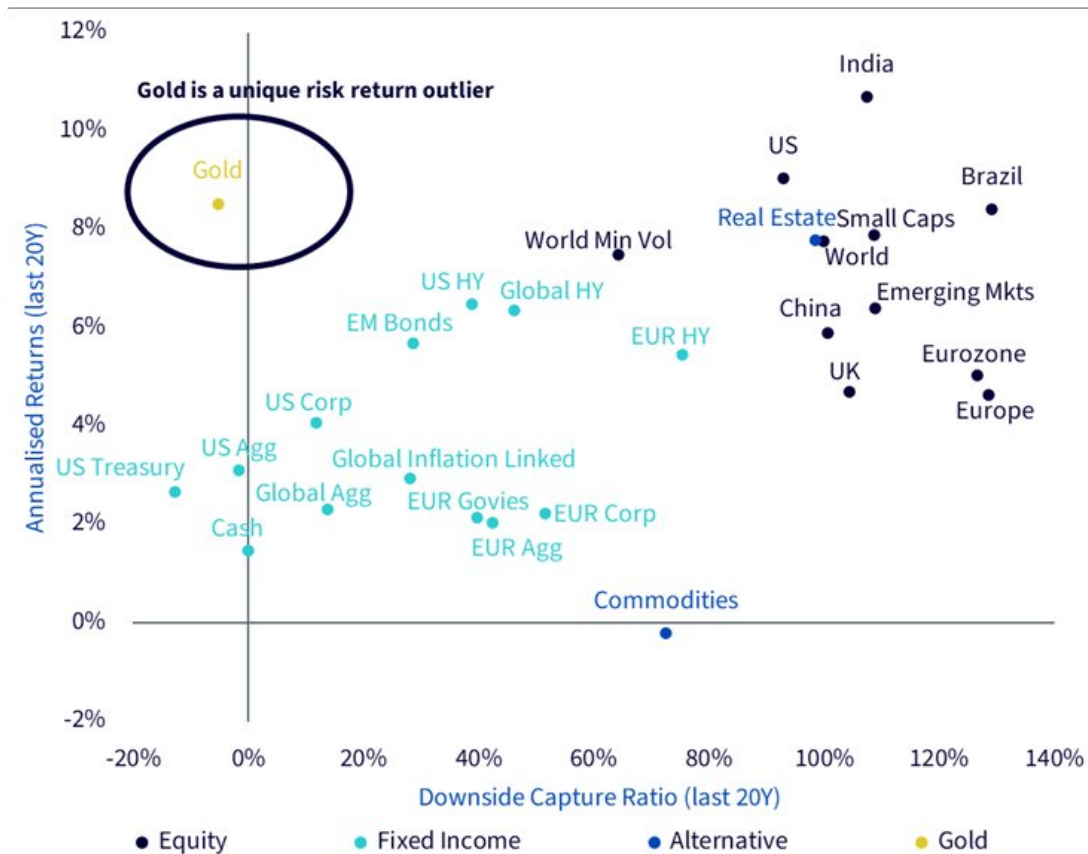
In the financial world, its unique behavioural traits make it a perfect diversifier to a portfolio. As we explored in our blog, [Diversifying your portfolio with gold](#):

- It behaves differently to equities, bonds, commodities, crypto currencies
- It is a great inflation hedging instrument
- It is a great geopolitical shock hedging instrument
- It is a great financial shock hedging instrument
- It performs well in both recessions and strong expansions

This balance between downside protection and capacity to generate positive return over the long term is very unique to gold. As illustrated in Figure 1, asset returns for most assets are broadly proportional to risk. Assets with high equity-like returns have over the last 20 years exhibited downside capture (vs. equity markets) of around 100%. Assets with lower downside capture, like fixed income, tend to have lower returns too.

However, gold bucks the trends: it has exhibited equity-like returns of +8.5% per annum over the last 20 years with very minimal downside capture. Gold therefore is a uniquely suited asset to increase diversification and reduce risk in the portfolio without weighing on the long-term performance.

Figure 1: Long term performance and downside risk for different assets over the last 20 years



Source: Bloomberg, WisdomTree. In USD. 31 January 2004 to 31 January 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

The perfect diversification tool...

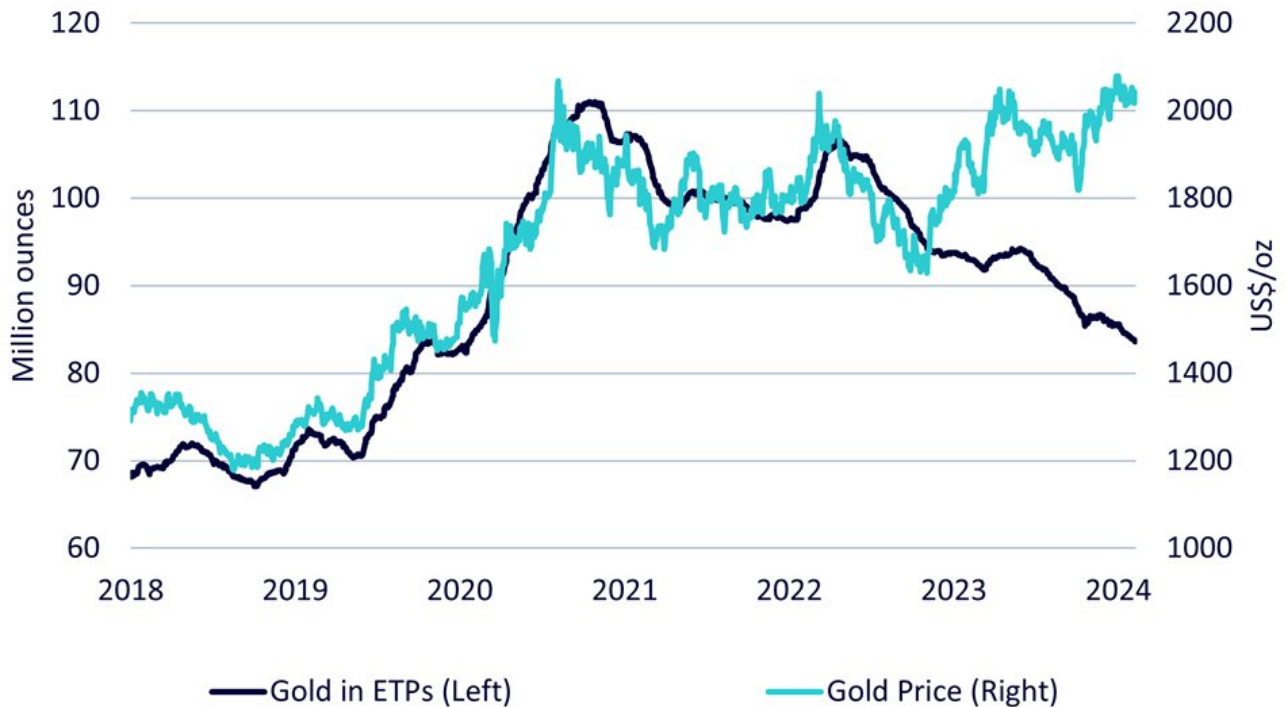
As the late Markovitz said, "The only free lunch in the world of investing is diversification". With that diversification, enhanced by low correlations, we estimate that an optimal portfolio should have somewhere between 16-19% in gold (assuming the rest in bonds and equities)¹.

...yet shunned by many investors today

We know from our Professional Investor Survey² this is far more than what most people hold in the venerated metal. But curiously, judging by exchange traded (ETP) flows over the past three years, professional gold investors appear to have turned their back on the metal (Figure 2). With repeated attempts

to break above the US\$2,050/oz mark, there has been no tailwind from the ETP market. If gold successfully gets above that level, we could see ETP investors return and that could fuel a stronger rally.

Figure 2: Gold price and ETP holdings



Source: Bloomberg, WisdomTree. 1 January 2018 to 8 February 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Gold poised to reach a new high

Although soft-landings have historically not provided the best setting for gold to shine, in this rate cycle we have seen gold hit a fresh high in December 2023, when markets were expecting a decisive Federal Reserve (Fed) pivot in 2024. Some of those gains have been given back as markets reassessed the Fed's urgency, but our Gold Model points to gold rising to a higher high by the end of this year³, on account of bond yields declining and the US Dollar depreciating. Gold could reach US\$2,210/oz, close to 10% higher at the time of writing (6 February 2023). Achieving the lauded soft-landing is easier said than done (and that is why we have so few observations to look at). We could face a bumpy road in 2024, with the Fed and markets clearly having a different view of the rate path ahead of us. Gold's hedging capabilities may once again prove to be the antidote to volatility elsewhere.

Solutions

WisdomTree is a leading provider of physically-backed gold exchange-traded commodities (ETCs). Since creating Europe's first physical gold ETC almost two decades ago, we have continued to build our suite

of gold products, offering clients best in-class features and price competitive solutions. [WisdomTree Core Physical Gold \(WGLD\)](#), for example, was launched in December 2020 with the highest responsible gold standards applied and custodians were asked to act on a best-efforts basis to only allocate 2019 or later London Bullion Market Association (LBMA) gold bars. It also has a management fee of only 12 basis points. Today, WisdomTree offers a comprehensive range of physical gold ETCs that cater for different investor objectives and preferences.

Sources

1 [The Role of Gold in a Portfolio](#)

2 WisdomTree, Censuswide. Pan-Europe Professional Investor Survey Research, Survey of 803 professional investors across Europe, conducted during August 2023.

3 [Gold Outlook to Q4 2024: From one high to the next](#)

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

The products discussed in this document are issued by Gold Bullion Securities Limited (the "Issuer"). The Issuer is regulated by the Jersey Financial Services Commission. Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the securities offered by the Issuer.

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by HSBC Bank plc, any of their affiliates or anyone else or any of their affiliates. HSBC Bank plc disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might have in respect of this document or its contents otherwise arising in connection herewith.

For Investors in Switzerland

This document constitutes an advertisement of the financial product(s) mentioned herein.

In Switzerland, this communication is only targeted at Qualified Investors.

The prospectus and the key investor information documents (KID) are available from WisdomTree¼s website: **https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports**

For Investors in Monaco

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.