

Gold + Equities = An Interesting Marriage

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Christopher Gannatti, CFA

Global Head of Research

Key Takeaways

- In August 2024, gold prices reached a new record high of more than \$2,500, driven by factors such as excessive government spending, debt burdens and geopolitical tensions.
- Gold is seen as a hedge against a weaker fiat currency, with significant purchases by central banks and a cultural preference for physical gold in countries like India.
- The [WisdomTree Efficient Gold Plus Equity Strategy Fund \(GDE\)](#) combines 90% exposure to U.S. equities and 90% to gold futures, offering a leveraged exposure that can potentially enhance returns but also increase volatility. The correlation between these different asset class returns, in our opinion, makes this marriage particularly interesting.

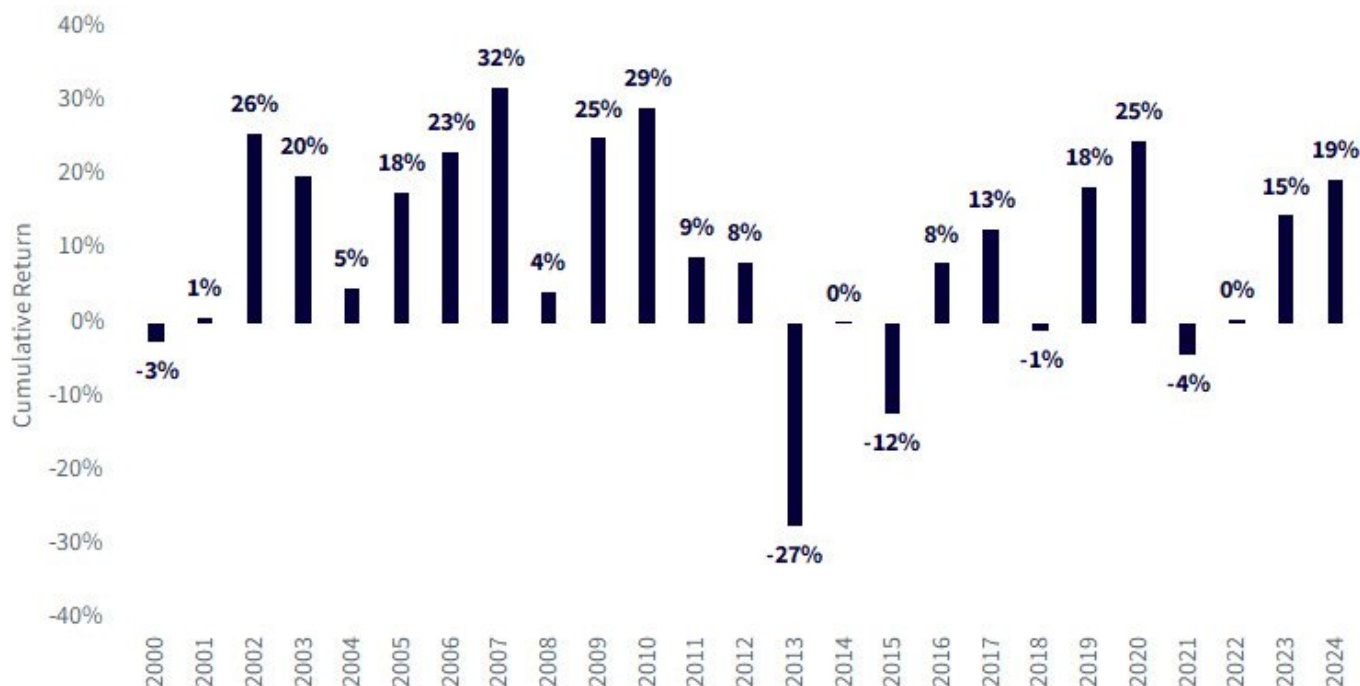
In August 2024, the price of gold eclipsed \$2,500, a new record high.¹ It's amazing to consider this metal has been culturally significant in financial transactions for thousands of years.

In figure 1, we look back to 2000 and note the percentage change in gold prices. The year-to-date 2024 figure of 19%—which led to the record high—is not an extreme outlier. There are many different reasons that investors allocate to gold.²

- We continue to hear about excessive government spending and the debt burden—and this year's election does not portend a direction change. Gold is viewed as a way to hedge against a weaker fiat currency.
- There are examples of countries, like India, where citizens appreciate holding physical gold, typically in the form of jewelry.

It's difficult to know the “right” price level for gold at a given time, though it is interesting that in the 24 years from 2000 to 2023, five exhibited negative returns, and only two out of those exhibited negative returns in the double-digit percentages.

Figure 1: Calendar Year Returns for Gold (2000 to 2024 YTD)



Source: Bloomberg. 2024 refers to the period 1/1/24–8/22/24. **Past performance is not indicative of future results.**

Efficient Gold Plus Equity Strategy

The typical way to build a portfolio is to think in terms of allocating 100% of a pie chart. A 60/40 portfolio tends to mean 60% in equities, 40% in fixed income. Some slice in a certain percentage to commodities or to gold.

There is no right or wrong allocation. But there are some ways to make portfolios go further than the typical limits of a 100% allocation.

WisdomTree developed a range of strategies based on the concept of stacking assets using prudent and capital-efficient leverage through futures.

Ultimately, there is no reason why, in one exchange-traded fund (ETF), one cannot allocate beyond 100%, thereby getting a greater notional exposure relative to every dollar invested.

Thinking of the [WisdomTree Efficient Gold Plus Equity Strategy Fund \(GDE\)](#) as an example:

- The foundation is exposure to the 500 largest U.S. equities by market capitalization, like any equity ETF. In this case, exposure to these stocks represents 90% of the total exposure.
- There is an overlay, such that there is an equal—an additional 90%—exposure to gold futures contracts. The equity exposure and the gold futures exposure, equal in magnitude, now combine such that the total exposure is 180% of the nominal investment.
- To serve as collateral for the gold futures, 10% of the allocation is in U.S. Treasury bills.

If an investor placed \$100 into [GDE](#), their return experience would be based on \$180 of notional exposure, with 50% driven by large-cap U.S. equities and 50% driven by gold futures.

- These are long exposures, meaning that the investor benefits if the gold futures and the equities exhibit positive returns and the investor loses money if they exhibit negative returns.
- This is a leveraged exposure. Leverage can increase portfolio volatility. An important part of the return experience, however, will be based on how the U.S. equities and the gold futures are moving relative to each other.

Morningstar U.S. Fund Large Blend Category

[GDE](#) is in the Morningstar U.S. Fund Large Blend category, so we started by posing the question—what are the three largest ETFs in this category by assets under management?

- **SPDR S&P 500 ETF Trust (SPY):** This strategy is designed to track, after fees and expenses, the total return performance of the S&P 500 Index.
- **iShares Core S&P 500 ETF (IVV):** This strategy is designed to track, after fees and expenses, the total return performance of the S&P 500 Index.

One might say—why include two funds that track the same underlying index? On August 22, 2024, there was nearly \$560 billion in SPY and nearly \$514 billion in IVV.³ When we talk about these two funds, we are talking about more than \$1 trillion in investor assets, and it is almost evenly split between them. It's clear that each is providing a use-case for investors.

We also wanted to recognize that the performance of gold is central to this discussion, in that we previously noted the key drivers of [GDE's](#) returns. The largest ETF option for investors seeking exposure to gold is the SPDR Gold Shares (GLD).

We wanted to explore how the performance of [GDE](#) compared to the performance of these four large and widely followed ETFs.

Figure 2: Standardized Returns

	Fund Ticker	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Efficient Gold Plus Equity Strategy Fund (NAV)	GDE	3/17/22	0.20%	23.51%	37.76%	N/A	N/A	N/A	14.71%
WisdomTree Efficient Gold Plus Equity Strategy Fund (MP)	GDE	3/17/22	0.20%	23.96%	38.85%	N/A	N/A	N/A	15.17%
SPDR S&P 500 ETF Trust (NAV)	SPY	1/22/93	0.10%	15.21%	24.39%	9.92%	14.96%	12.76%	10.36%
SPDR S&P 500 ETF Trust (MP)	SPY	1/22/93	0.10%	15.23%	24.50%	9.95%	14.99%	12.77%	10.36%
iShares Core S&P 500 ETF (NAV)	IWV	5/15/00	0.03%	15.27%	24.53%	9.98%	15.01%	12.82%	7.60%
iShares Core S&P 500 ETF (MP)	IWV	5/15/00	0.03%	15.28%	24.62%	10.02%	15.04%	12.82%	7.60%
Vanguard Dividend Appreciation Index Fund (NAV)	VIG	4/21/06	0.06%	8.16%	14.59%	7.74%	11.73%	11.07%	9.58%
Vanguard Dividend Appreciation Index Fund (MP)	VIG	4/21/06	0.06%	8.11%	14.60%	7.73%	11.75%	11.07%	9.57%
SPDR Gold Shares (NAV)	GLD	11/18/04	0.40%	12.80%	21.41%	9.32%	10.15%	5.47%	8.41%
SPDR Gold Shares (MP)	GLD	11/18/04	0.40%	12.47%	20.61%	9.09%	10.05%	5.32%	8.32%

Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, 6/30/24.

NAV denotes total return

performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results.**

Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click [here](#).

The Path Dependency of Returns

When considering the returns of [GDE](#), one must hold in mind:

- The returns of the top 500 U.S. equities weighted by market cap.
- The returns of gold futures contracts.
- The returns of U.S. Treasury bills.
- The correlation of returns of these three distinct asset classes against each other over the period.

We look at **GDE's** returns against SPY, IVV, VIG and GLD over three distinct periods:

- **2022:** **GDE's** inception was March 17, 2022, so we look at the available history during this year even if we cannot include the full year. 2022 was a difficult return year for U.S. equities⁵ and U.S. fixed income.⁶
- **2023**
- **2024:** Up to August 22, 2024, when we began writing this piece.

Generally speaking, if the price of gold is stable to rising and U.S. equities are doing well, this is a better environment for **GDE**. If the price of gold is volatile and falling and U.S. equities are trending more in the negative direction, this is a worse environment for **GDE**.

For the available history of 2022:

- **GDE** lagged all of the strategies shown. Equities had a tougher time generating returns over this period, and GLD was down slightly.
- The difference in returns between **GDE** and both IVV and SPY (since they track the same underlying index it is tough to see distinction between the lines in a line chart), was roughly 5% over this period.

Figure 3: 2022's Available History



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 8/22/24. NAV denotes total return

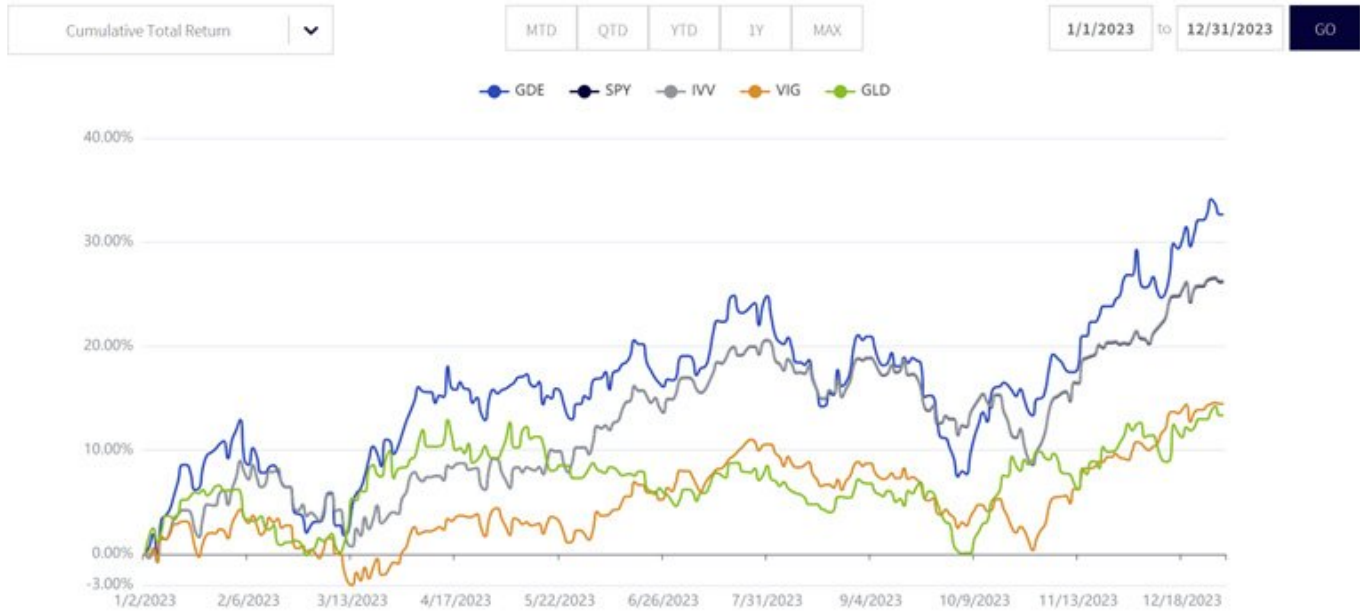
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2023 saw:

- GLD delivered a return in the vicinity of 15%.

Positive equity returns and gold price appreciation was a pretty good environment for [GDE](#), overall.

Figure 4: 2023—A Year of Large-Cap U.S. Equities and Some Gold Price Appreciation

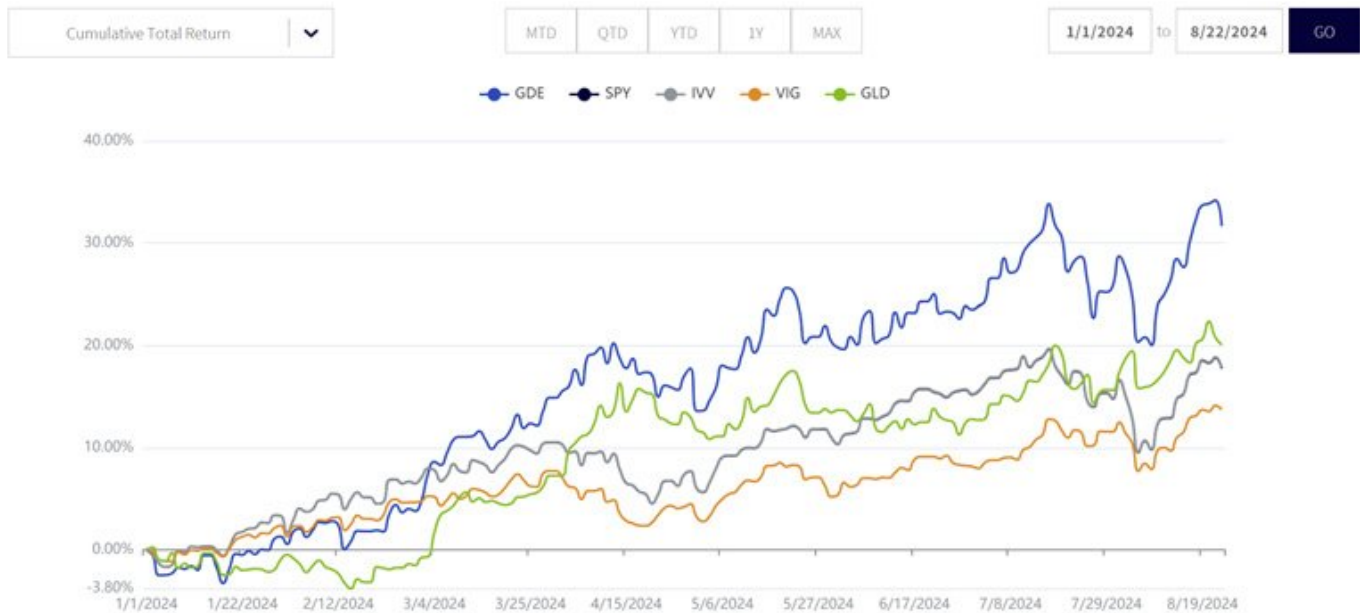


Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 8/22/24. NAV denotes total return

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In 2024 so far, we see:

Figure 5: 2024 Period So Far...



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 8/22/24. NAV denotes total return

performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment**

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end and standardized performance and to download the Fund prospectus, click [here](#).

Now, even if IVV, SPY and VIG represent well over \$1 trillion on their own, the Morningstar U.S. Fund Large Blend Category has a lot of other strategies within it. In figure 6, we see that **GDE** was in the first percentile, as of June 30, 2024, which means that over these periods it has generated better returns than 99% of the other funds in this category (over 1,400).

We know that the explanation for these results is the fact that the typical fund in this group would be exposed solely to U.S. equities and would not have a gold futures overlay. Still, Morningstar has placed **GDE** into this category, and we do believe that many investors allocate to U.S. equities and gold, but they typically do it separately. **GDE** offers a way to allocate to gold and U.S. equities in the same vehicle and free up capital to invest in other areas. Remember—for every \$100 of nominal exposure, the notional investment is exposed to \$180 (\$90 in U.S. equities and \$90 in gold futures).

Figure 6: GDE's Rank in Morningstar's U.S. Fund Large Blend Category

	1-Year
Total Return (NAV)	37.78%
Percentile Rank	1
# of Investments in Category	1415

Source: Morningstar, as of 6/30/24 (YTD performance through 6/30/24). US Fund Large Blend. Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. Regarding ranking of funds, 1 = Best. Morningstar rankings are based on a fund's average annual total return relative to all funds in the same Morningstar category. Fund performance used within the rankings, reflects certain fee waivers, without which, returns and Morningstar rankings would have been lower. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100.

Figure 7: Other Important Information

Fundamentals	WisdomTree Efficient Gold Plus Equity Strategy Fund (GDE)	SPDR S&P 500 ETF Trust (SPY)	iShares Core S&P 500 ETF (IVV)	SPDR Gold Shares (GLD)	Vanguard Dividend Appreciation Index Fund (VIG)
Objective	The strategy is design to generate exposure to a basket of three asset classes in the following allocation: 90% exposure to the 500 largest market capitalization-weighted U.S. equities, weighted by market capitalization. 10% exposure to a portfolio of U.S. treasury bills. 90% exposure to a portfolio of gold futures contracts. Overall notional exposure is 180%, meaning for each \$100 invested, there is \$180 of exposure generated.	The strategy is designed to, after fees and expenses, track the total return performance of the S&P 500 Index, which is a market capitalization-weighted approach to U.S. equities and one of the most widely followed indices amongst investors.	The strategy is designed to, after fees and expenses, track the total return performance of the S&P 500 Index, which is a market capitalization-weighted approach to U.S. equities and one of the most widely followed indices amongst investors.	The investment objective of this strategy is to reflect the performance of the price of gold bullion, less the Trust's expenses.	This strategy is designed to track, before fees and expenses, the total return performance of the S&P U.S. Dividend Growers Index. This index measures the performance of U.S. companies that have followed a policy of consistently increasing dividends every year for at least 10 consecutive years. The top 25% highest-yielding dividend-payers are excluded from the index.
Total Expense Ratio	0.20%	0.10%	0.03%	0.40%	0.06%
Total Assets under Management (USD, millions)	\$35.73	\$558,984.88	\$513,678.68	\$69,104.42	\$97,353.68

Sources: WisdomTree, Morningstar, as of 8/23/24.

1 Source: Leslie Hook & Harry Dempsey, "Gold Hits Record Highs as Investors Bet on Rate Cuts," *Financial Times*, 8/21/24.

2 Source: McCauley et al, "The Russian Sanctions and Dollar Foreign Exchange Reserves," *VOXEU Column*, 7/29/24.

3 Source: Morningstar.

4 Source: <https://www.spglobal.com/spdji/en/indices/dividends-factors/sp-us-dividend-growers-index/#overview>

5 Refers to the S&P 500 Index.

6 Refers to the Bloomberg U.S. Aggregate Index.

Important Risks Related to this Article

GDE: There are risks associated with investing, including the possible loss of principal. The Fund is actively managed and invests in U.S.-listed gold futures and U.S. equity securities. The Fund's use of U.S.-listed gold futures contracts will give rise to leverage, magnifying gains and losses and causing the Fund to be more volatile than if it had not been leveraged. Moreover, the price movements in gold and gold futures contracts may fluctuate quickly and dramatically and have a historically low correlation with the returns of the stock and bond markets. U.S. equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund's investment strategy will also require it to redeem shares for cash or to otherwise include cash as part of its redemption proceeds, which may cause the Fund to recognize capital gains. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

SPY: In general, ETFs can be expected to move up or down in value with the value of the applicable index. Although ETF shares may be bought and sold on the exchange through any brokerage account, ETF shares are not individually redeemable from the Fund. Investors may acquire ETFs and tender them for redemption through the Fund in Creation Unit Aggregations only. Please see the prospectus for more details.

IVV: As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. The Fund is subject to certain risks, including the principal risks noted below, any of which may adversely affect the Fund's net asset value per share ("NAV"), trading price, yield, total return and ability to meet its investment objective. Relative significance of any risk is difficult to predict and may change over time. You should review each risk factor carefully.

GLD: Although ETF shares may be bought and sold on the exchange through any brokerage account, ETF shares are not individually redeemable from the Fund. Certain investors may acquire ETFs and tender them for redemption through the Fund in Creation Unit Aggregations only. Please see the prospectus for more details. Investing involves risk, and you could lose money on an investment in GLD.

VIG: All investing is subject to risk, including the possible loss of the money you invest. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.