Global markets outlook

Gold is back as an investment class

October 2024

Marketing materials for professional investors, not for onward distribution.

General overview

Emerging market returns supercharged by Chinese stimulus

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Emerging Markets (UH, EUR)	5.8%	4.4%	15.7%	19.6%	1.7%	5.3%
Gold (USD)	5.7%	12.9%	27.2%	41.7%	14.0%	11.3%
Emerging Markets (LC)	5.6%	6.6%	18.3%	25.0%	2.9%	7.4%
EMD local currency (UH, EUR)	2.5%	4.9%	3.7%	7.9%	2.3%	0.5%
Global real estate (UH, EUR)	2.3%	11.1%	14.1%	25.2%	3.8%	2.8%
Global high yield (H, EUR)	1.7%	5.0%	8.2%	16.0%	1.1%	2.4%
MSCI World local currency	1.5%	4.7%	18.7%	30.4%	9.9%	13.2%
Global investment grade bonds (H, EUR)	1.4%	4.5%	4.0%	11.2%	-2.6%	-0.5%
MSCI World (H, EUR)	1.4%	4.3%	17.8%	28.9%	8.1%	11.5%
MSCI World (UH, EUR)	1.0%	2.1%	17.6%	25.6%	10.5%	12.5%
EMD hard currency (UH, EUR)	1.0%	1.9%	7.0%	11.2%	0.6%	0.6%
Global Gov Bonds (H, EUR)	1.0%	3.7%	2.0%	7.3%	-3.2%	-2.0%
Global inflation-linked bonds (H, EUR)	0.8%	2.8%	1.0%	6.7%	-5.0%	-1.9%
Cash (EUR)	0.3%	1.0%	3.0%	4.1%	2.1%	1.1%
GSCI Commodities (USD)	-0.9%	-9.0%	4.2%	-10.9%	10.2%	7.5%
Oil Index (USD)	-5.9%	-11.7%	5.7%	-14.1%	10.1%	-1.1%

Source: Robeco, Bloomberg

The Fed dominates

September echoed the start of August, as risk assets dropped at the start of the month, and selected equity indices fell from all-time highs. However, the monetary stimulus from the Fed cutting rates (by 50bps) led to long-end bond yields falling 50 bps since May, other central banks continuing to cut rates and massive stimulus out of China supporting returns across the board, as investors don't have to make a capital allocation choice... just buy everything. In other words, TMM (too much money) is the current market mantra. Emerging market equities benefited the most, while domestic and foreign investors hoovered up cheap unloved Chinese equities and covered shorts.

A domestic tilt

Sector performance in the US and Europe had a domestic tilt, and not the tech-leading rally of recent years. In the US, homebuilders and consumer stocks lead the way after the Fed cut interest rates. In Europe, interest rate-sensitive were the leaders, although basic resources and consumer stocks plugged into China made a late bid for leadership following the stimulus.

Credits beat sovereigns

In bond markets, credit outperformed sovereign bonds, following the pattern elsewhere, although tight credit spreads remain a performance limiter. The traded-weighted dollar fell 5% over Q3, helping the reflation trade outside the US as dollar costs eased. It also contributed to the outperformance of EM debt (local FX) over other bond markets. Oil continued to slide as output rose while demand remains anemic and supply is plentiful. This price performance does not align with a global economic soft landing or building tensions in the Middle East. Other commodities such as gold continued to perform well.

 All market data to 30 September2024 unless mentioned otherwise

Theme of the month

Gold: Revenge of the bugs

All in tonnes 1 tonne = 35,274 oz	1990	2023	1990-2023 CAGR
World gold stocks	95,000	213,000	1.9%
Supply			
Mine production	2,114	3,644	1.3%
Recycled gold	446	1,237	
Hedging, others	240	17	
Total Annual Supply	2,800	4,899	1.5%
Demand			
Jewellery	1,986	2,168	0.2%
Gold bars and coins	236	1,190	3.8%
Industrial	395	298	-0.7%
Investment	144	945	4.5%
Others incl. ETFs	0	206	
Central Banks	40	1,037	7.9%
Total Annual Demand	2,800	4,899	1.3%

Table 1: Slow supply growth (1.5%) and fast central banking demand growth (7.9%)

A special commodity

People who are bullish on gold are sometimes pejoratively described as ‘gold bugs’. They are said to be stuck in the past, having failed to realize that financial markets have evolved since the end of the Gold Standard in 1971. Robeco wrote a white paper in 1992, where – although we were bullish on the price outlook – we declared gold to be irrelevant as an asset class. We argued that gold was no longer needed to hedge tail (downside) risk events, as derivative markets had become large and liquid enough to take that role. Also, the expectation was for low inflation for the foreseeable future.

Outpacing equity returns

Progressive insights 32 years after this paper and the return of inflation worries may mark the ‘revenge of the bugs’. Gold's 28% return so far in 2024 has particularly caused a stir, as it outpaces even strong equity returns. Since the white paper in 1992, gold has risen by an annualized 6.2%. So, do we need to reassess gold as an asset class? Gold is a commodity. Supply and demand are key to where its price will go. As a scarce commodity, supply is capped, with mine supply growing stocks by just 1.3% per annum. What differentiates it from most commodities is that gold lasts forever. All the gold that has ever mined below ground still exists above ground. That fundamentally affects the supply potential.

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Gold: Revenge of the bugs

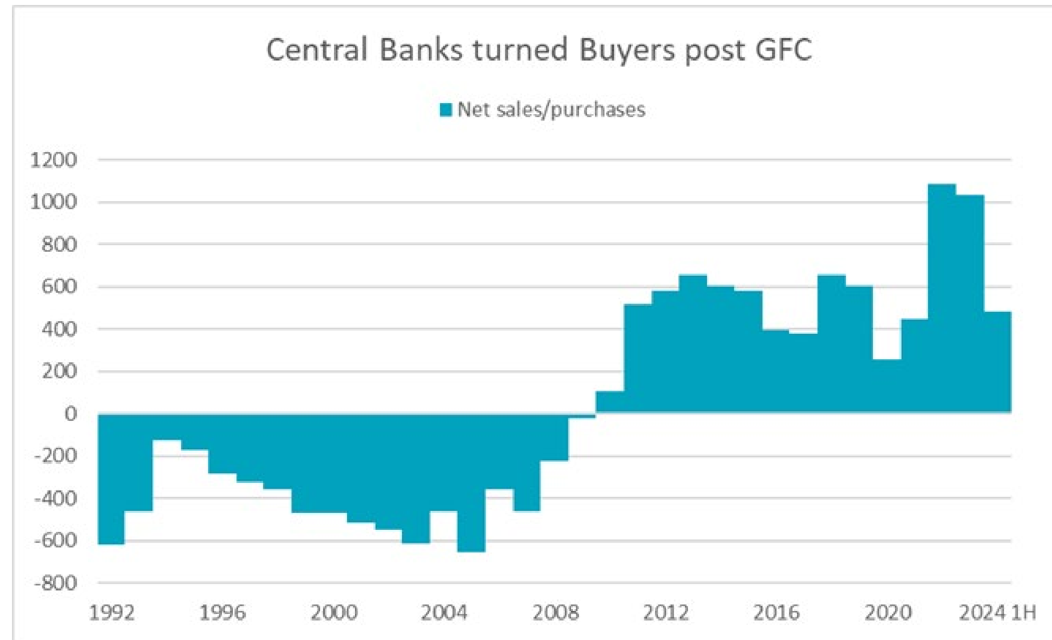

Chart 1: Central Bank buying in first half 2024 accelerated further

Source: Source: Visual Capitalist, Metals Focus, Refinitiv GFMS, World Gold Council

A central banking rethink

Still, the demand outlook will be key. It seems that armed conflicts and political unrest haven't had much of an impact on financial markets. And any bearish trader can still buy put options cheaply. Yet, global conflicts have been supportive of gold demand. In countries that are under sanctions, or have capital controls, gold remains a great alternative for cash in the bank.

From Russia with love

And not just for individuals, but also for central banks. Russia in particular has been a big buyer (1,300 tons) since sanctions were first imposed in 2014. Some also say that China has been buying because it is afraid of US sanctions potentially making its access to US dollars difficult. In general, central banks turned from sellers to buyers after 2009, when the GFC became a watershed event to alter their thinking about the role of gold.

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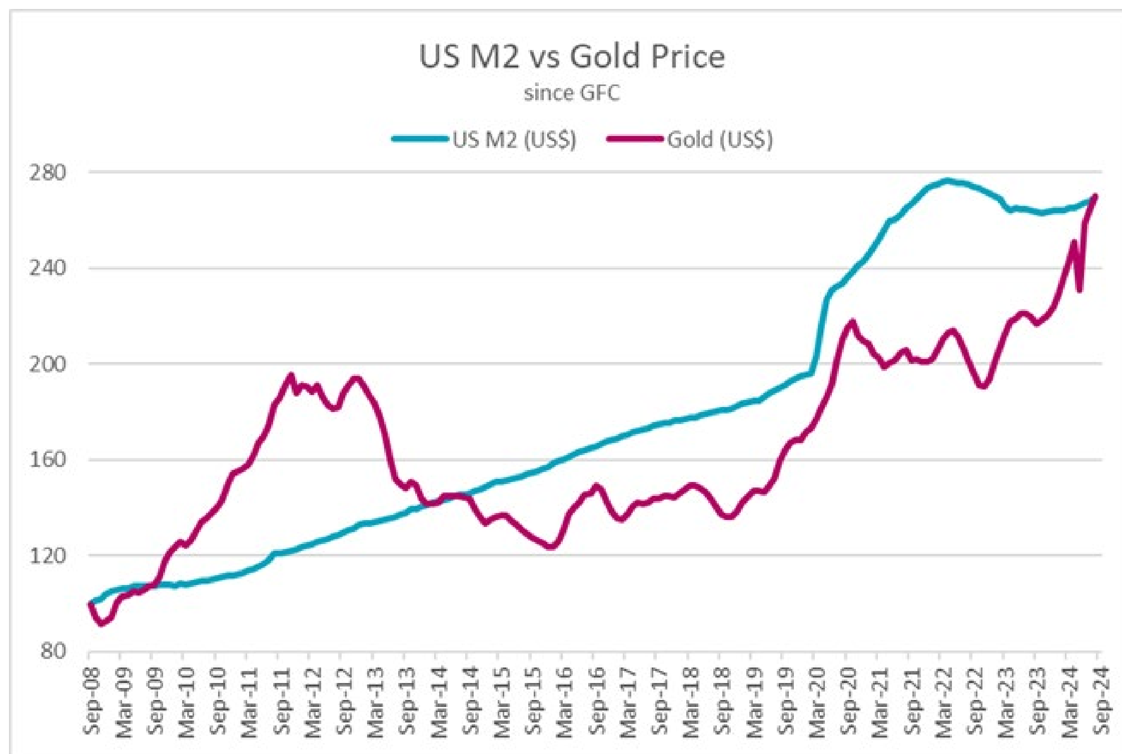

Chart 2: Gold price increase is commensurate with broad money growth since the GFC (08/09)

Excess money supply has driven prices higher

Central bankers have confirmed many times that "Gold remains an important element of global monetary reserves". In a 2024 Gold Council Survey, 69% of central banks said that in five years' time, a larger percentage of their reserves will be held in gold (at the expense of USD holdings). Currently, just 17% of global central bank reserves are held in gold. There is a strong divergence though between the high levels seen in Western economies (60-70%) and very low levels in China (5%) and India (10%). It is clear where future purchases may come from.

Breaking the correlation with other assets

Analysts found a strong correlation between gold prices and the moves in real interest rates in the noughties. The opportunity cost of holding a non-yielding asset like gold was seen to drive the price of that asset. This correlation spectacularly broke in 2022 when real rates went up, and so did the gold price. It may be more sensible to compare the gold price rise with the sharp rise in broad money growth which eventually and inevitably brought inflation. The chart shows that the moves are commensurate since the GFC; gold is just a lot more volatile.

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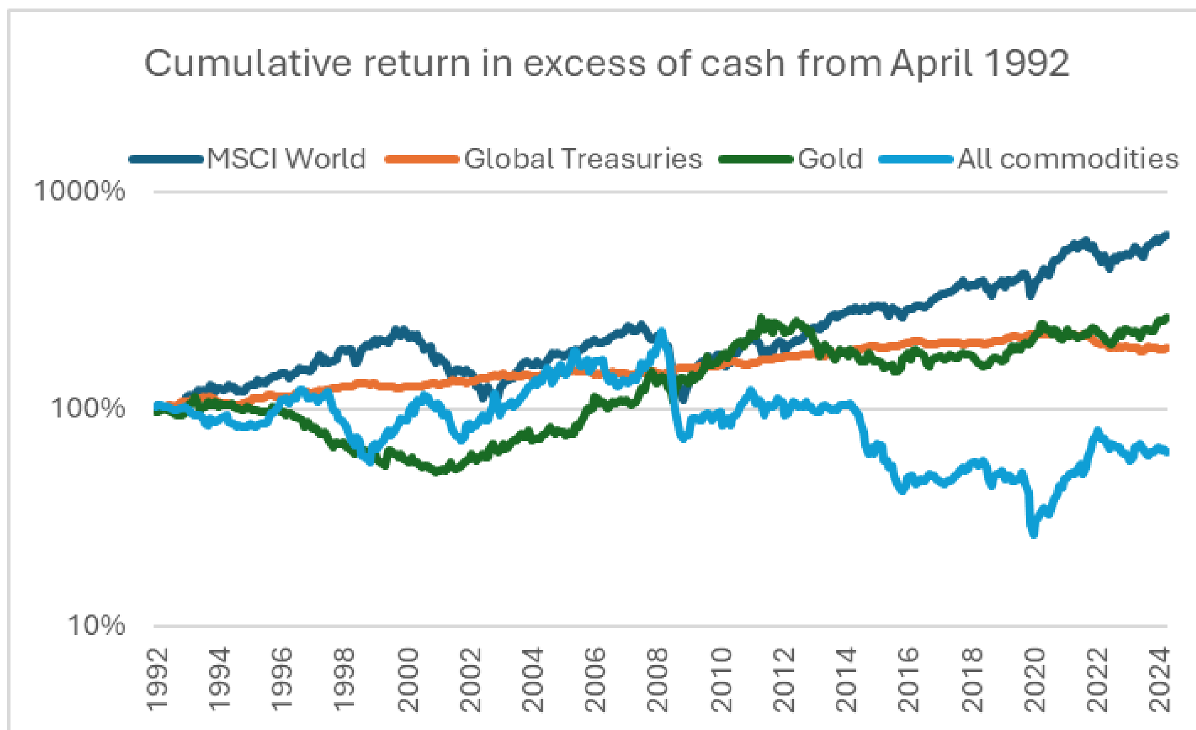

Chart 3: Excess returns of gold since the 1992 research paper, better than Treasuries, and very unlike commodities

Source: Bloomberg, Robeco

A 2,500 year-long marketing campaign

One should also not underestimate the value of brand marketing. Gold is an unsought product, though most wealthy individuals have for decades been told that it makes sense to allocate part of their assets to this perennially favored shiny metal. Ever since Croesus (in 500 BC), gold has become equivalent to wealth. We have been indoctrinated by 2,500 years of history to believe that gold is valuable. It is an essential element in weddings globally. This is also the case in India and China, where further wealth creation will also result in higher gold demand.

A very liquid asset

Gold is also a very liquid (USD 170 billion in daily trading) and transparent market. Exchange-traded Funds (ETFs) have made investing in gold much easier over the past 20 years. Its younger competitor, bitcoin, has done an excellent marketing job too with ads along Formula One race- tracks and in football stadiums – but that is quite a different target audience.

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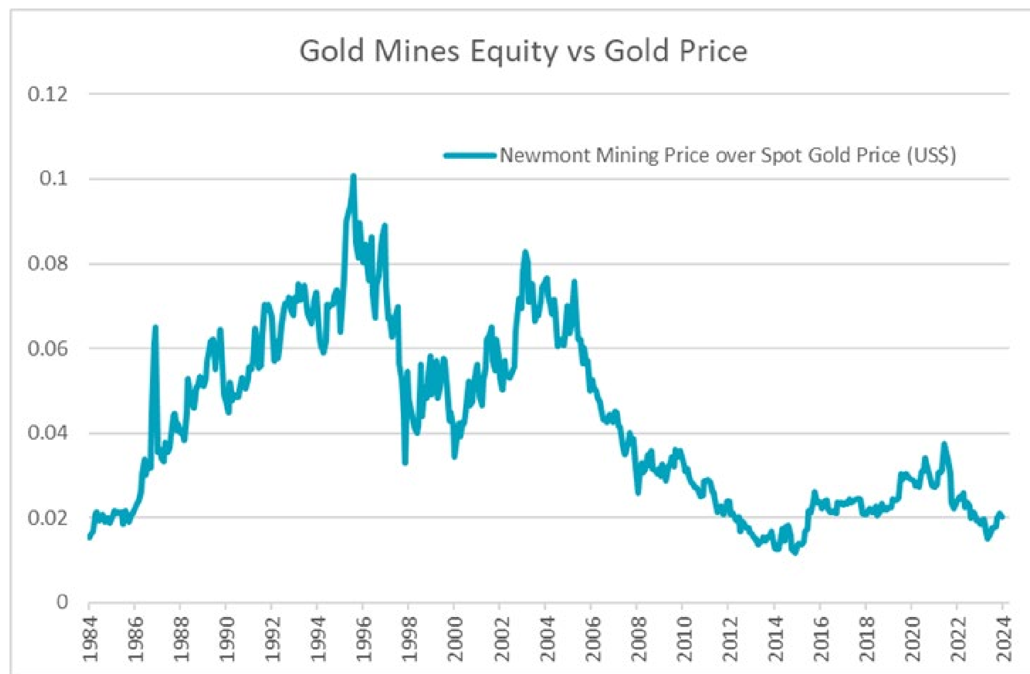

Chart 4: Gold miners have lost their premium valuation over the past 30 years.

For those that have lost faith

Many people, especially right-wing liberals in Western economies, have lost faith in governments and their fiat money. They have turned to bitcoin and gold as the best stores of value when the debt-built edifice eventually comes tumbling down. Remarkably, retail interest has fallen after peaking in 2020. But here too, we see ETF demand starting to come back over the past couple of months. Buying begets buying.

Many happy returns

As multi-asset investors, we look at gold clinically. From a risk/return perspective, there is reason to allocate to gold. Since our 1992 white paper, returns have been healthy. Its Sharpe ratio may not have been great, as it has been quite volatile (15.3%) over that period. However, gold offers diversification because it has been lowly (0.1-0.2) correlated with US Treasury bonds and equities and actually has a negative correlation (-0.2) with other commodities.

Theme of the month

Gold: Revenge of the bugs

Gold ETFs holdings by region

Weekly holdings in Tonnes

Data as of 20 September, 2024

Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council; Disclaimer https://www.gold.org/terms-and-conditions#proprietary-rights

Chart 5: ETF demand has come in waves over the past 20 years, currently tide is rising

Source: Bloomberg, World Gold Council

A seat at the multi asset table

We would definitely not describe ourselves as gold bugs – yet the multi-asset team has started a tactical allocation to gold, next to our broad allocation to commodities. Central bank demand, growing Asian wealth and right-wing liberals are the main reasons to be bullish.

We hold gold through an Exchange-Traded Commodity (ETC) instrument as well as through the shares of gold miners. There is a good case to be made for gold miners' equities, as it can take away the drawback of having no yield; the largest Gold Mining ETF (GDX) sports a 2% yield.

The high yielding alternative

Gold miners have underperformed physical gold, especially in the noughties, coming down from up to 2x net asset value (the discounted value of the proven reserves in the ground before deducting mining expenses) in the 1990s, to fall in line with their NAV currently. The ETF and ETC markets offer easy alternatives for those who don't want to hold a safe deposit with gold bars.

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