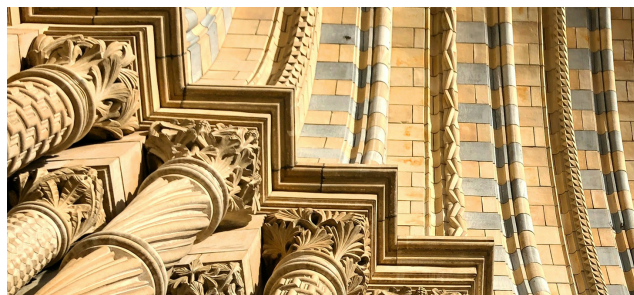


Go for gold

Go for gold

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** (1) Gold remains an effective portfolio diversifier and hedge against political and economic risks, in our view. (2) Gold tends to move in the opposite direction to the US dollar, becoming less expensive for non-dollar holders when the greenback weakens. (3) History suggests a mid-single-digit percentage allocation to gold in a well-diversified portfolio is optimal.
- **Why now?** (1) Global gold demand this year should reach around 4,850 metric tons, the highest level since 2011. (2) Further Federal Reserve rate cuts would reduce real interest rates as inflation remains sticky, boosting gold. (3) Investor appetite is strong, with global gold ETFs recording their largest monthly inflow in September.



Gold remains a valuable portfolio hedge, which we expect to benefit from strong demand, lower real rates, and investor uncertainty. Source: Unsplash

Gold has risen over 60% this year, outperforming all major asset classes, with the US government shutdown and renewed trade tensions injecting fresh momentum into the trade.

While the scale and speed of the gold rally may mean volatility could pick up from here, we maintain the view that gold is a valuable component of a resilient investment strategy.

US real interest rates could fall into negative territory as the Federal Reserve cuts interest rate further while inflation is still sticky. We believe this will further undermine the appeal of the US dollar and therefore boost investment flows into bullion.

In fact, global gold ETFs recorded their largest monthly inflow in September (USD 17bn), according to the World Gold Council, making the USD 26bn in inflows over the three months to September the strongest quarter on record. We think investment demand can pick up further, and coupled with still-elevated central bank purchases, global gold demand this year should, in our view, reach around 4,850 metric tons, the highest level since 2011. If private

investors begin diversifying US Treasury holdings into gold, which has been a trend among central banks, spot prices could be pushed even higher.

Finally, as economic, geopolitical, and policy uncertainties remain, we expect continued flows into the yellow metal, which could spur additional gains toward our upside case of USD 4,700/oz. Given the precious metal's low correlation with equities and bonds, especially during periods of market stress, we favor a mid-single-digit exposure to gold in a well-diversified portfolio. Separately, investors can also consider equity exposure to select gold miners as their cash flow could rise faster than gold prices in the next six months.

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