2020

Three reasons to go for gold

Aberdeen Standard Investments

We believe that ongoing market uncertainty and accommodative monetary policy may support gold investment demand.

Gold is, in our view, a distinct asset class and a core risk management tool. An allocation to gold shouldn't reflect a tactical reaction to market volatility spikes. We view gold as a strategic, long-term hold. We believe its unique investment properties may make gold a critical component of a well-balanced investment portfolio, in high times and low.

1. More than just another commodity

Gold is a commodity — it's a physical object you can hold in your hand. This means, it's a global asset driven by the fundamentals of supply and demand. Taking a look at gold's behavior, however, shows it to be more in line with currencies.

Part of this relationship lies in gold's heritage as a currency. Throughout history, gold served as a medium of exchange for currencies because it's of uniform quality. (The global gold standard only came to an end about one hundred years ago, with the outbreak of World War I.)

Today, we believe its lack of credit risk makes gold an attractive reserve monetary asset among central banks.

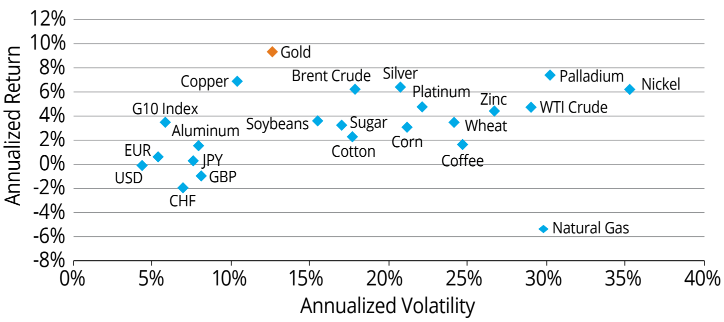
Gold's risk/return profile falls into the currency camp more closely than its precious metal or commodity peers (Chart 1). Gold has the highest correlation to seven out of 10 G10[1] currencies than silver, platinum or palladium. These other precious metals are more akin to traditional risk-adjusted commodity performance. Gold is a commodity, but it's much more than that.

2. Gold may cushion drawdown risks

Gold is a dynamic and multi-faceted potential defense against many forms of risk. It has a track record of protecting investors during severe market drawdowns (Chart 2) , remaining resilient during spikes in volatility.

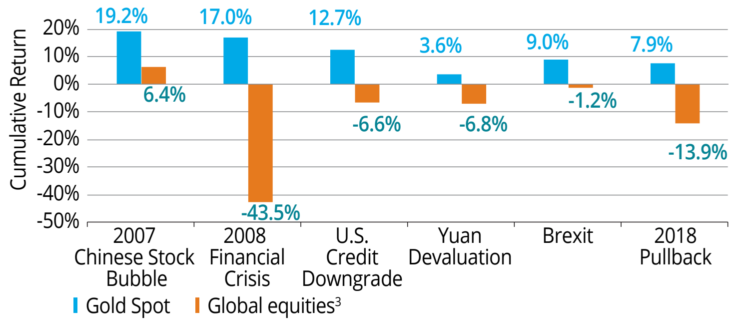
During negative market events, investors' fear and uncertainty may spike. As a result, investors seek stable, defensive investments and global equities typically experience large selloffs. Gold has historically performed admirably when global equities have shown negative returns and large drawdowns (Chart 2). For example, during the biggest drawdown in recent history, the Global Financial Crisis,[2] gold managed to deliver significantly higher returns than the broad equity market (Chart 2). Precious metals may serve as such an alternative to equities.

Chart 1: Gold behaves more in line with currencies



Source: Bloomberg, Aberdeen Standard Investments, October 2019.
Table data from 8/31/99 – 8/31/19. For illustrative purposes only.
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.
IT IS NOT POSSIBLE TO INVEST IN AN INDEX.

Chart 2: Gold has performed well during event risks, historically



Source: Bloomberg, Aberdeen Standard Investments, October 2019.
Chart data from 2/1/07 through 12/31/18. For illustrative purposes only.
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[1] G10 or Group of Ten refers to the group of eleven industrialized nations that meet annually (or as necessary) to debate and cooperate on international financial matters. Member countries include: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the US. Switzerland also plays a minor role

[2] The Global Financial Crisis refers to the period of extreme stress in global markets that began in 2007 with a subprime mortgage lending meltdown and expanded into a global banking crisis

[3] Global equities are represented by the MSCI World Index, an unmanaged index considered representative of stocks of developed countries. The index is computed using the net return, which withholds applicable taxes for non-resident investors

3. A golden diversifier

Gold may perform best when added to a diversified portfolio. Portfolio efficiency tends to increase when investors add gold to a diversified stock/bond investment lineup. This means that with the addition of gold, a portfolio's risk may be reduced, while return may remain the same or increase compared to portfolios without gold allocations.

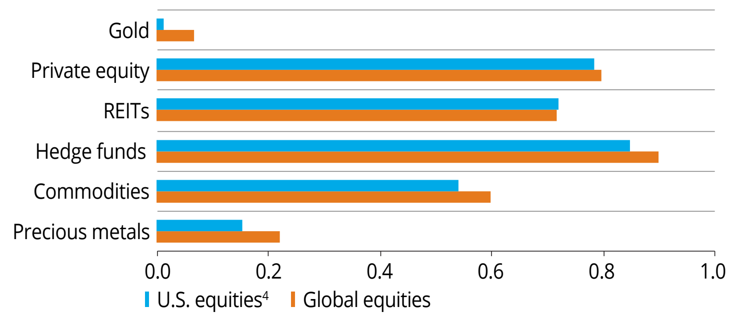
While bonds and cash may also increase portfolio efficiency, gold is an attractive alternative because it is less impacted by interest rates. Rising interest rates put downward pressure on bond valuations, which can make holding them less attractive to investors. Additionally, negative interest rates may push cash yields to negative, on a real basis. Gold may help effectively manage asset allocations and portfolio exposure.

Gold also has a low correlation to equities (Chart 3), so it may diversify a portfolio from its stock allocation. Gold also has a historically low correlation to bonds.

Moreover, this low correlation to major asset classes holds in both times of expansion and recession. During times of expansion, goods and products that rely on gold, such as jewelry and technology, are often in high demand. In times of recession, there is a gold surge among people seeking a financial safe haven. The benefits of low correlation to stocks and bonds aren't limited to any one type of investor or one particular risk profile.

Proper weighting will depend on investors' different risk profiles and individual investment objectives. However, we believe that investors should have some allocation to gold in their portfolios. Investors tend to reach for gold in times of fear. But we believe that a strategic, rather than a reactionary, allocation to gold may be a brighter idea. Whether gold prices continue to hover near highs or retreat, we encourage long-term investors to look beyond the present and consider "going for gold."

Chart 3: Gold has a low correlation to equities compared to other asset classes



Source: Bloomberg, Aberdeen Standard Investments, October 2019. Chart data from 12/31/08 through 12/31/18. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

[4] U.S. equities are represented by the S&P 500 Index, an unmanaged index considered representative of the US stock market.