Gary Shepherd
Host

Investments

Octo Opinion: The silver lining to this year's gold run

A longer read.

2020 has hardly been a golden year for investors, though as the herds head for tried and trusted safe havens they may find that all that glitters…

Fresh from a record high spot price of $1,997 per ounce, it seems inevitable that gold will breach the symbolic $2,000 mark shortly. Does this suggest that the market is losing confidence in the dollar as the world's reserve currency? Possibly.

What's not debatable is that investors are nervous as hell given terrible economic data coming out of the world's major economies in recent weeks. Stock markets may continue to rally, but the wider picture is not one of outright bullish optimism, particularly while Covid-19 continues its devastating path.

Investing in any asset class at an all-time high is rarely a great idea, though in fairness you could say the same for the momentum-driven tech titans that relentlessly continue to dominate equity markets today.

Podium places

The performance of gold, and indeed other safe-haven assets has certainly been an eye-opener in recent months. Funds from the likes of Charteris, Merian, Ninety One, Ruffer and BlackRock led the way for all funds in July, all with double-digit returns.

In terms of investment trust sectors, Commodities & Natural Resources was the best performer last month with a return of 13.8%, followed by 9.4% from the grouping of Latin America funds, which have presumably benefited from the performance of commodities-rich economies such as Brazil.

Best performing funds in July 2020

Funds - July 2020 (top ten)	Return %
Charteris Gold & Precious Metals	+19.64
MFM Junior Gold	+18.09
Merian Gold & Silver	+17.9
ES Gold & Precious Metals	+17.17
Ninety One Global Gold	+12.21
Ruffer Gold	+11.6
Oxeye Hedged Income	+10.67
Blackrock Gold & General	+10.56
Quilter Precious Metals Equity	+10.52
GAM Star Alpha Technology	+9.94

Source: FE Analytics, Fairview Investing

"Is it any surprise that gold has had an excellent run recently?" asks Ben Yearsley, investment consultant at Fairview Investing.

"QE has been on steroids in recent months, which could be inflationary at some point and may well have a debasing effect on currencies.

"Added to that is the lack of any yield on cash and government bonds and for once the opportunity cost of holding gold is nothing. Many are suggesting gold powers on to $2,500."

Certainly, a further drawdown – perhaps caused by the dreaded second wave of Covid – could see more investment into what is seen as the ultimate safe haven, despite the metal's limited use in everyday life.

Bubble territory?

LGIM's multi-asset team has recently been lowering its tactical conviction in gold to neutral, so outlines currency strategist Willem Klijnstra.

"We believe gold can best be modelled by real yields and the US dollar and, as both have fallen recently, the shiny metal has enjoyed a tailwind," he explains.

"Gold seems fairly priced at the moment. To move higher from here, we believe we would need to see one of the following: bubble dynamics in the metal, lower real yields, or a weaker dollar.

"A bubble is certainly possible in a world awash with liquidity, but gold bugs are everywhere so sentiment is already very positive, making the threshold for continued outperformance higher. Real yields, meanwhile, have already been dampened by the liquidity glut.

"Finally, we think dollar weakness is less likely to persist, given the currency's overvaluation is starting to disappear and negative sentiment regarding the greenback is becoming more widespread."

But if you do like to invest in gold how is the best way to access the story? Should you invest passively via an exchange-traded commodity (ETC), or actively through a fund manager investing in related securities? That is of course presuming you don't have access to a high-security gold bullion vault in your back garden.

The top-performing fund in July - and indeed in the whole of 2019 in a universe of more than 2,500 funds - was the DMS Charteris Gold & Precious Metals Fund, which invests though a diversified portfolio of between 20-50 companies whose core business is involved in the mining, refining, production and marketing of gold and precious metals.

Sell the family silver

Manager Ian Williams throws a curveball by suggesting that the fund's recent outperformance is as much attributed to its high weighting to silver miners as it is gold.

"Historical precedent shows that silver outperforms gold in bull markets," he says in his latest update.

"Although some investors might baulk at buying gold at an all-time high, this does not apply to silver, which at the current price of $24 is only half its all-time high. Indeed, looking at a long-term chart of the ratio of silver to the S&P 500 index, silver has just come off a 20-year low and, far from looking expensive, looks to represent value".

Looking ahead, despite recent gains, he believes gold and other precious metals do seem to offer further upside potential: "Gold and silver seem to be in a primary bull market that has yet to display the standard signs of an imminent market top.

"It is worth remembering that gold prices surged by 40% in the final nine months of the last major bull market of 1960-80".

I'd be interested to hear from Octo members who invest in gold, or indeed other precious metals. It's interesting to note that other traditional safe havens, particularly government bonds, have actually held up very well during this year's turmoil.

As discussed in our recent article looking at multi-manager and multi-asset vehicles, the traditional 60/40 equity/bond split has been leading the way, side-stepping some of the more esoteric, and often illiquid, alternatives.

Photo by Ben Ostrower on Unsplash

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