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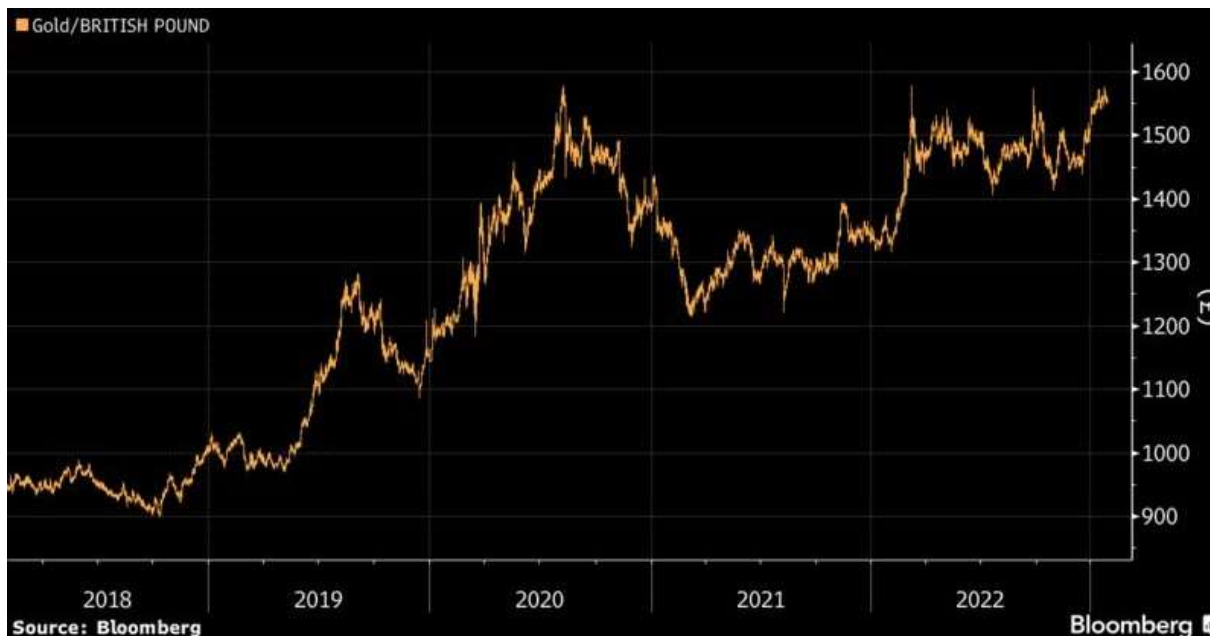
Gold rallies on dollar doubts

- Gold put in a late burst of performance in 4Q22
- Central banks switched reserves away from the US dollar
- Gold remains an important diversifier

Gold's recent performance has been strong

True to its reputation as a safe haven in times of upheaval, gold has performed relatively strongly (particularly in GBP terms¹) as equity markets have fallen, inflation has run amok and the repercussions of war have reverberated throughout the global economy.

Fig. 1. In sterling terms, gold is near a record high



Much is made of the benefit of [gold as a diversifier, due to its relative lack of correlation with other asset classes](#), and indeed there has not just been a single driver behind its recent gains.

¹ <https://www.bloomberg.com/news/newsletters/2023-01-30/gold-is-near-a-record-high-here-s-how-to-invest>

Central banks look to reduce US dollar exposure

Perhaps the most significant has been the desire by a number of central banks to diversify reserves away from over-reliance on the US dollar after the US enacted sanctions that effectively froze Russia's dollar-denominated reserves. Alarmed by the perceived 'counterparty risk' in holding the dollar, central bank gold purchases in the final quarter of 2022 rose to 12 times higher year on year², led by Turkey, China and the Middle East.

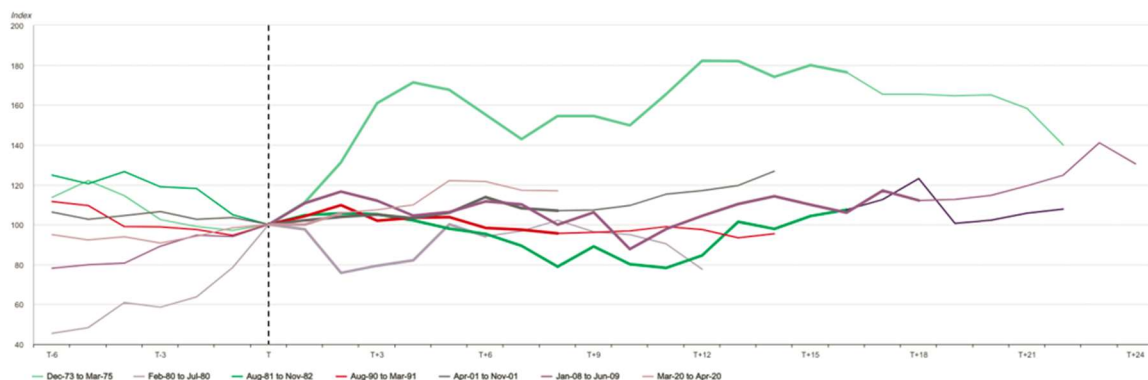
Retail buying has also been strong, climbing to a 9-year high in 2022³. In part this has been driven by investors seeking to protect themselves from high inflation. But China's opening-up towards the end of last year has been a factor too. With consumer spending unleashed after almost three years of Covid lockdown policies, the tradition of buying and gifting gold, particularly over the Chinese New Year period, has been a boon for the precious metal.

What if there's a recession?

Inflation is looking increasingly sticky and recent expectations that the cycle of interest rate hikes may ease have dissipated. If benchmark rates continue to ratchet higher the risk of a 'hard landing' ie, a recession, compounds.

Should this come to pass, however, on historical evidence, gold will fare better than many other asset classes as the following chart demonstrates.

Fig.2. The performance of gold before, during and after NBER-designated recessions



*Based on the LBMA Gold Price PM. The vertical line at time T is the start of an NBER-designated recession. The thick portion of each respective line denotes the recession period. Source: ICE Benchmark Administration, The National Bureau of Economic Research (NBER), Bloomberg, World Gold Council

² Source: Financial Times

³ Source: Financial Times

As part of a long-term investment strategy, [gold plays its part in a portfolio](#). Investors can either own physical coins or bars themselves (although associated costs are high), buy the physical product through a dealer who handles the storage or else invest in an exchange-traded product backed by physical gold.

Summary

Traditionally, gold tends to perform positively when volatility increases. In periods of high inflation and currency devaluation, gold serves to protect investors' purchasing power. Its insurance characteristics mean that the optimal allocation for gold increases when risk in a portfolio increases. In short, its uncorrelated nature and "insurance" characteristics make it a structural diversifier within an investment strategy.

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