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Market performance and macro factors

Gold report

Q4 2024

Introduction

In our quarterly Gold Report, we review the performance of the gold price and touch upon other asset classes, as well as explore significant macro factors, including bond yields, the US Dollar and inflation expectations.

Key facts from Q4 2024

Gold price return in Q4
-0.4%

Gold price return in 2024
+27.2%

Interest rate outlook for 2025
50 bps of cuts

Real bond yields rose in Q4
+64 bps

US Dollar Index
+7.6%
in Q4

Data: Bloomberg, as at 31 December 2024.

The gold price dipped -0.4% in Q4 2024, the first quarterly decline since Q3 2023. However, the price of the yellow metal rose 27.2% in 2024 for its strongest annual return since 2010.

After setting new record highs in late-October, gold fell due to a stronger US Dollar, rising bond yields and, perhaps most notably, revised estimates for US interest rates and inflation in 2025.

Quarterly price performance

The gold price set a new all-time record towards the end of October before a sell-off was triggered by the resounding victory by Trump and the Republican Party. By holding a majority in both houses of Congress, Trump should have an easier path to delivering on his "America first" campaign promises. Proposed trade tariffs are seen as inflationary, which could mean interest rates stay higher for longer. This hawkish outlook sent the US Dollar higher and pushed up bond yields, both of which are negative for the non-yielding gold asset. The yellow metal ultimately recovered, however, with price-sensitive buyers enticed back into the market, and gold ended the year at US$2,624, just 0.4% lower for the fourth quarter.

Gold price return in Q4

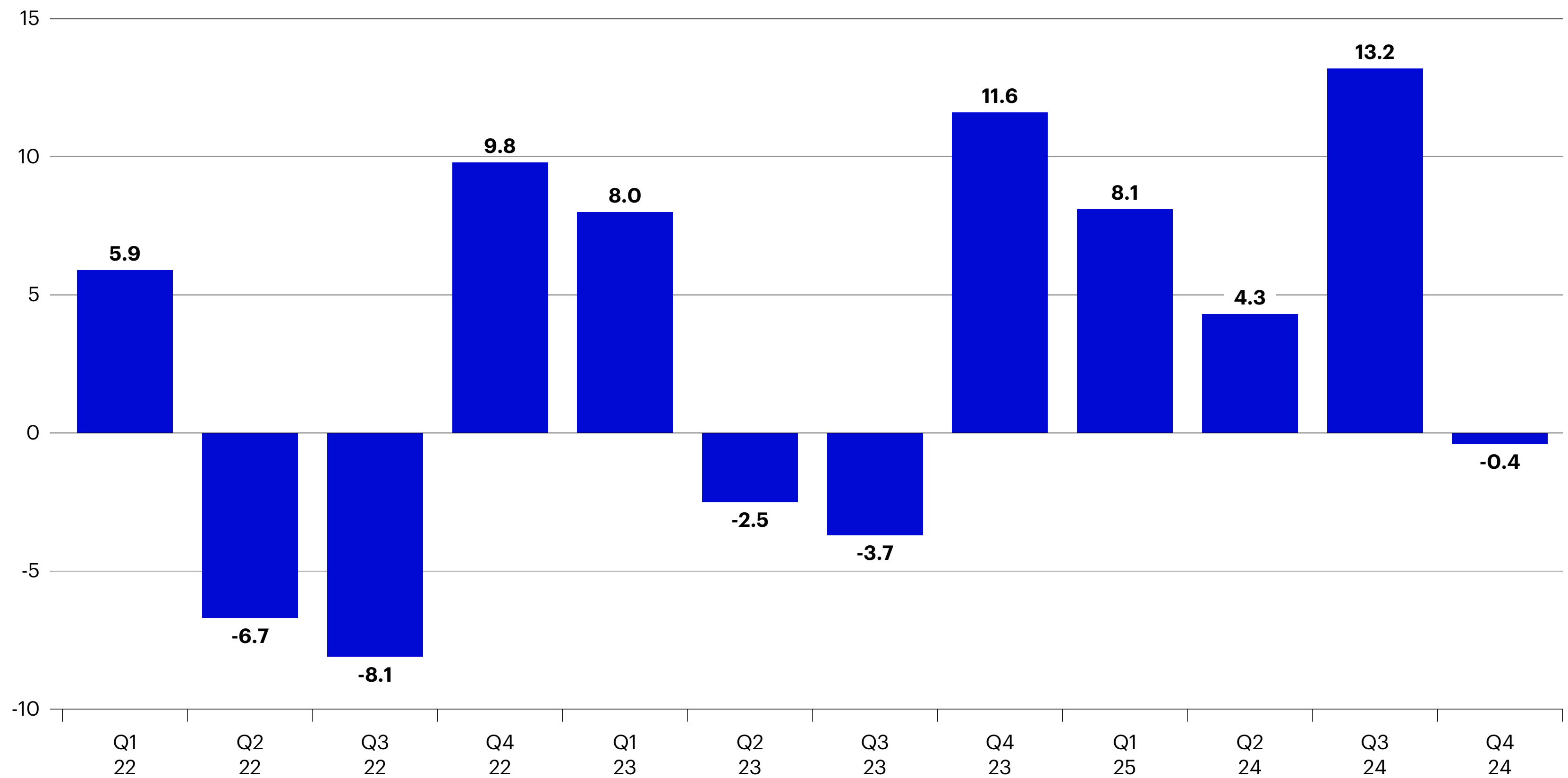
-0.4%

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, from 30 September to 31 December 2024.

Quarterly price returns

The -0.4% return in Q4 was the first time gold has produced a negative quarterly return since Q3 2023 and the first negative Q4 return since 2016. Historically, the fourth quarter has been strong for gold as demand is usually boosted by jewellery purchases ahead of the Indian festival and wedding season. Record high gold prices may have dampened demand in 2024, but we will watch out for the World Gold Council's official Q4 demand figures to see if jewellery demand increased towards the end of the year when prices were lower.

Quarterly price change (%)

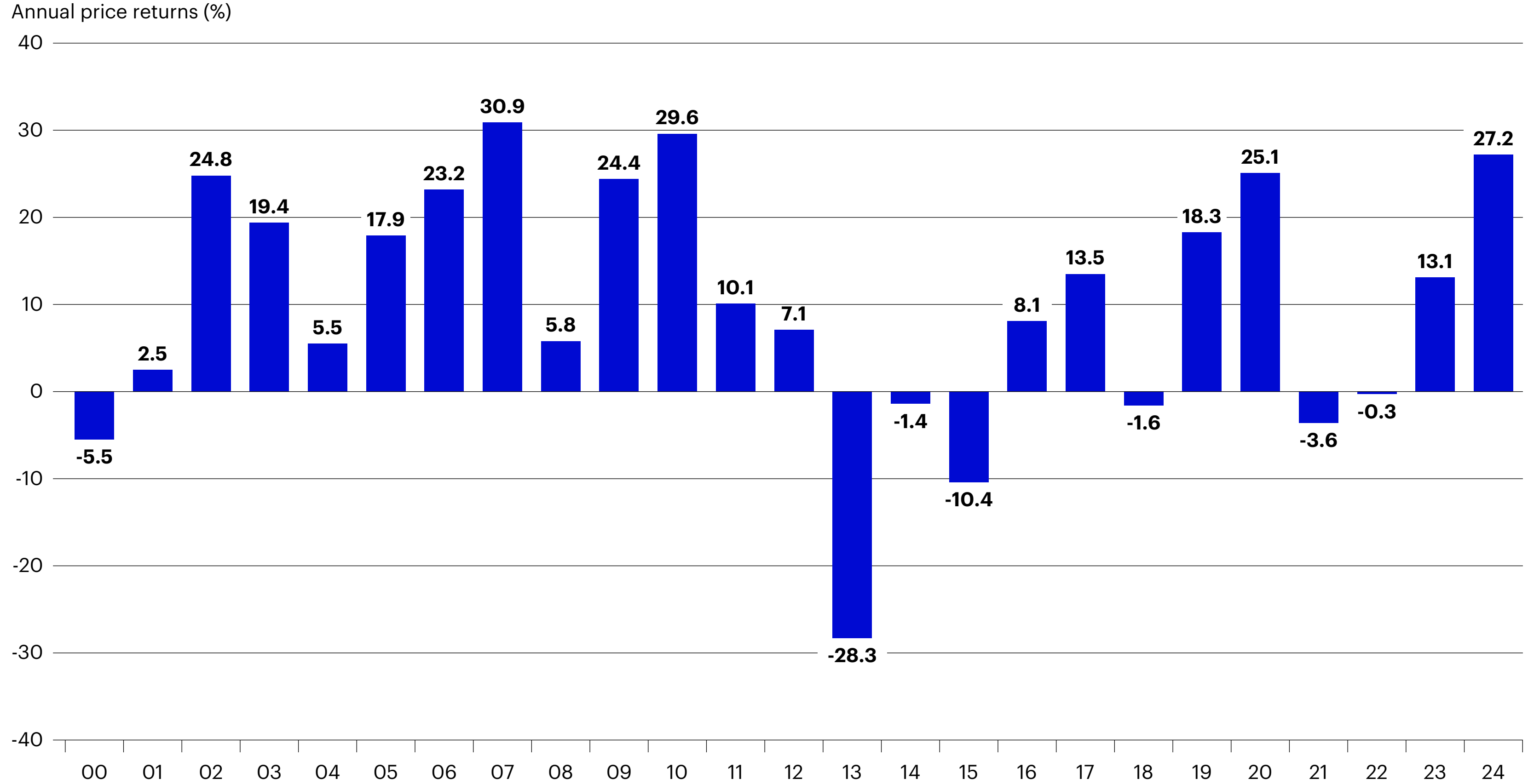


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 31 December 2024.

Annual price returns

Despite the small decline in Q4, gold returned 27.2% in 2024 for its best annual performance since 2010. The price of the yellow metal hit 39 record highs during the year, driven by central bank buying, geopolitics, falling inflation and interest rate cuts.

Gold price return in 2024
+27.2%



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD.

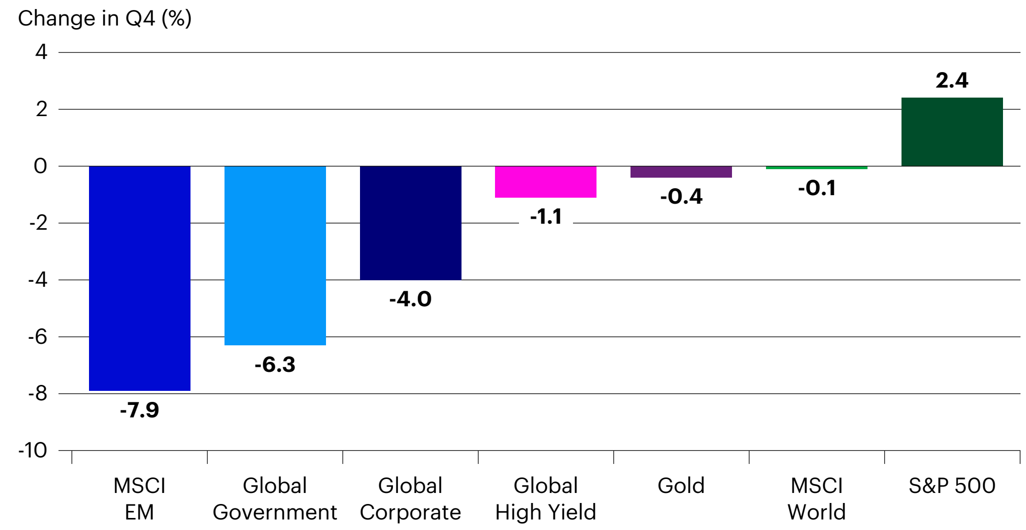
Market performance

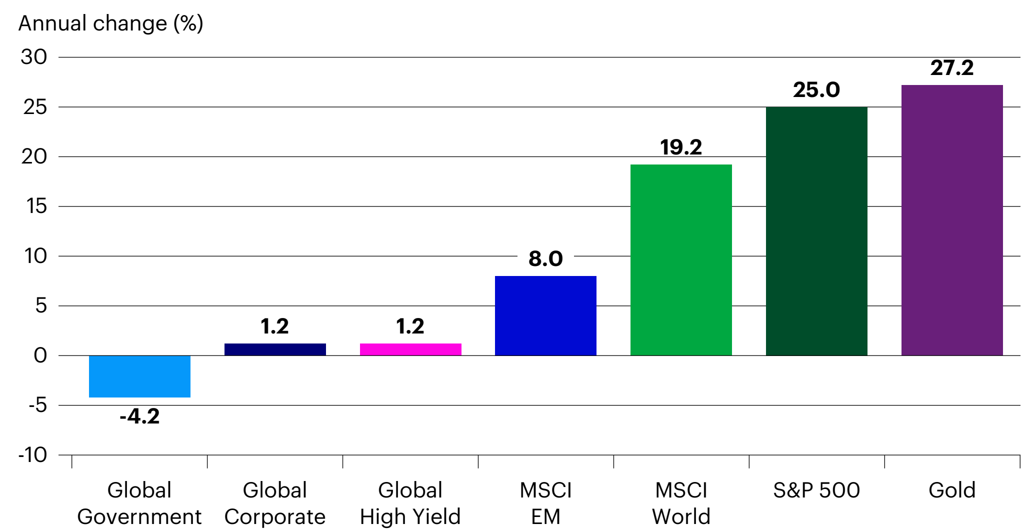
Macro factors

Asset class returns

Gold's small decline in Q4 placed it ahead of broad global bond markets, with yields rising during the quarter. Global government bonds suffered the most, underperforming investment-grade corporates and high yield. However, emerging market equities performed the worst of the major asset classes, suffering from US Dollar strength (relative to EM currencies) and increased concerns around the global economy. US equities delivered the only positive return in the quarter, being arguably the greatest beneficiary of Trump's election victory.

Despite being down in Q4, gold was still the best performing major asset class in 2024, courtesy of strong returns in each of the first three quarters. The S&P 500 index, as a proxy for US equities, was second-best, ahead of other equity markets, while the year's weakest performance came from global government bonds.





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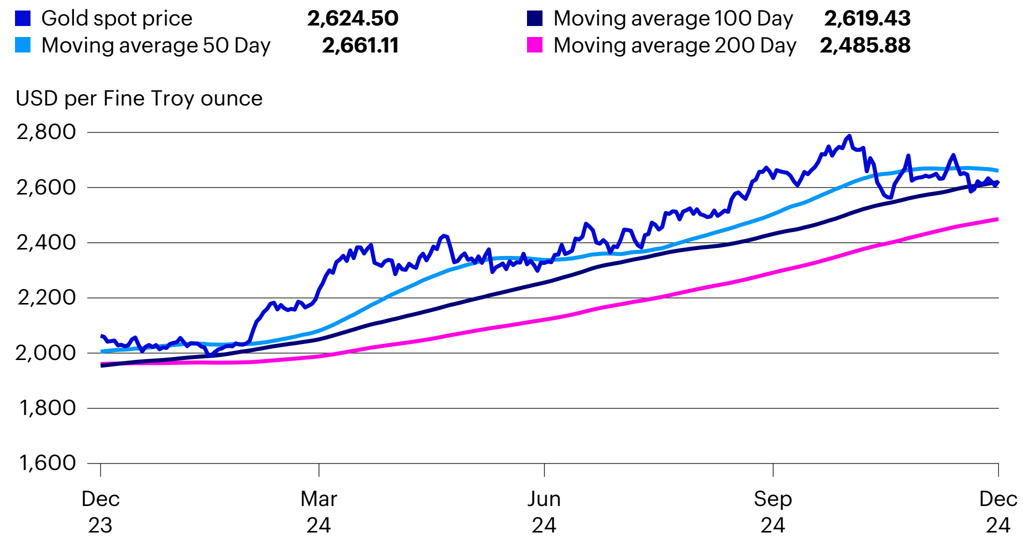
Relative strength of the gold price

The gold price entered overbought territory twice in October, according to the 14-day Relative Strength Index, but returned to more neutral ground for the remainder of the quarter.

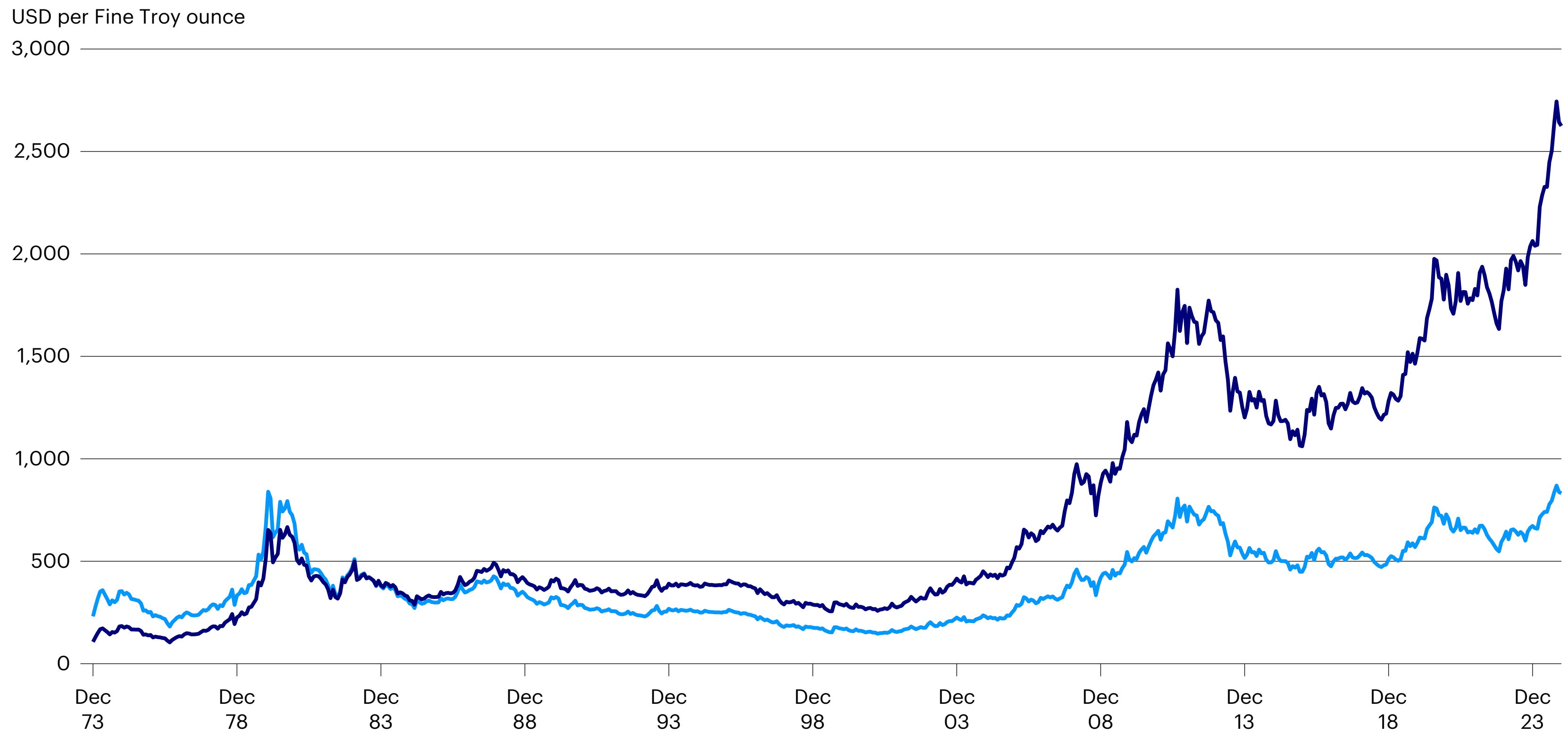


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

Gold price return, nominal and adjusted for inflation

Gold posted a modest decline in real terms in the quarter, equal to its nominal price return. Gold's 27.2% annual price return in 2024 converts to roughly 23.7% on a real basis over the same time horizon.

Nominal Gold price	**2,624.50**
Real Gold price	**831.87**

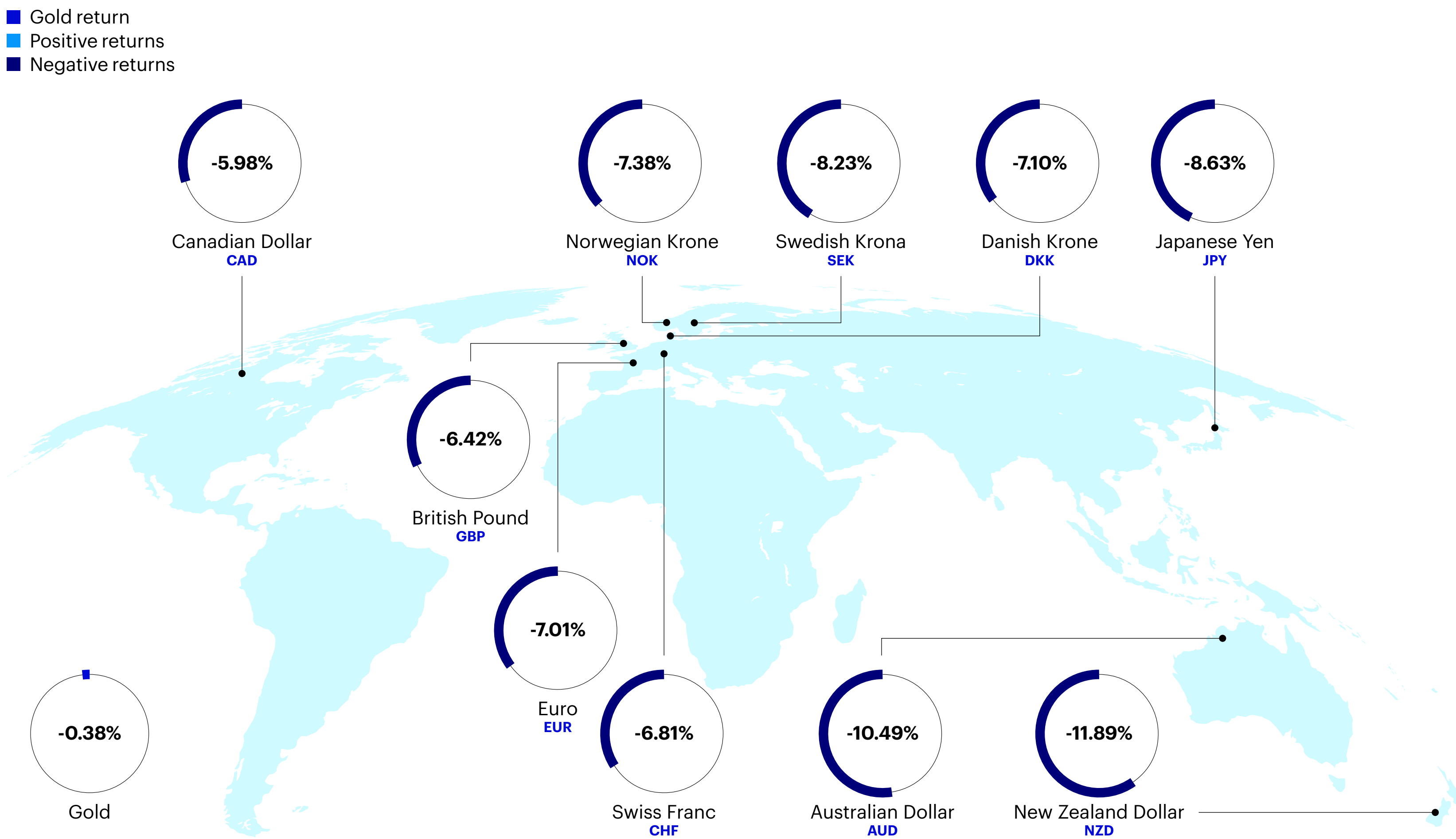


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

G10 currencies

While the gold price in USD terms was down modestly in the quarter, the yellow metal outperformed all major currencies. Weakness in non-US currencies was due to concerns over the economic outlook for those countries with significant trade exposures to the US.

Q4 returns of gold and G10 currencies in USD (%)



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

Market performance

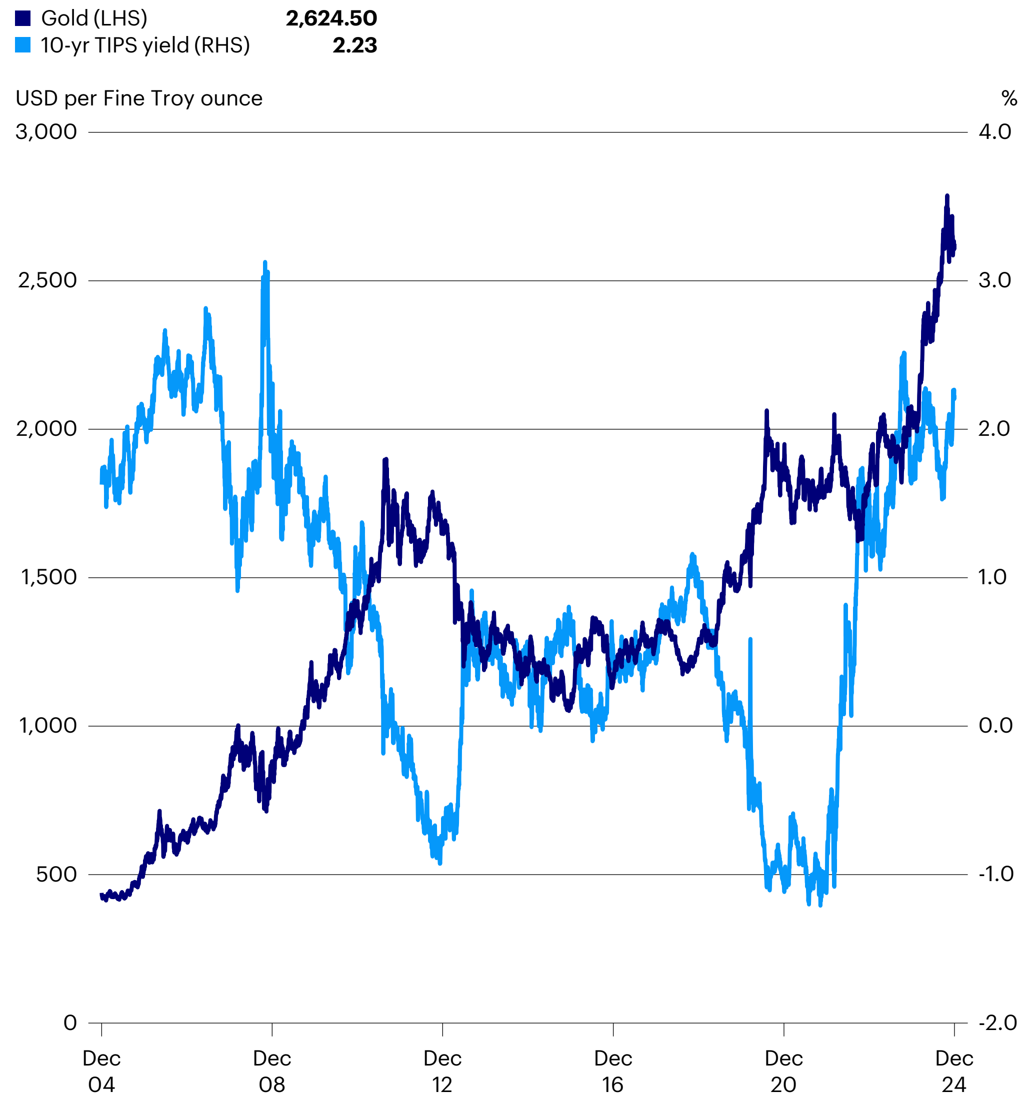
Macro factors

Gold price and real bond yields

The real yield as measured by the US 10-yr TIPS ended Q4 at 2.23%, having risen by 64 basis points (bps) in the quarter. Yields rose to around 2% following the US election result in early November and then rose again after Fed Chair Powell suggested the Fed would be taking a more measured approach to further interest rate cuts. Higher bond yields, especially when adjusted for inflation, is generally negative for gold, as it increases the opportunity cost of holding the non-yielding asset.

Real bond yields rose in Q4

+64 bps



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

Gold price and Fed balance sheet

The Fed's balance sheet continued to shrink in Q4, dropping to below US$7 trillion for the first time since July 2020. The reduction was a result of the runoff of securities held outright, primarily US Treasuries and, to a lesser extent, agency mortgage-backed securities.

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

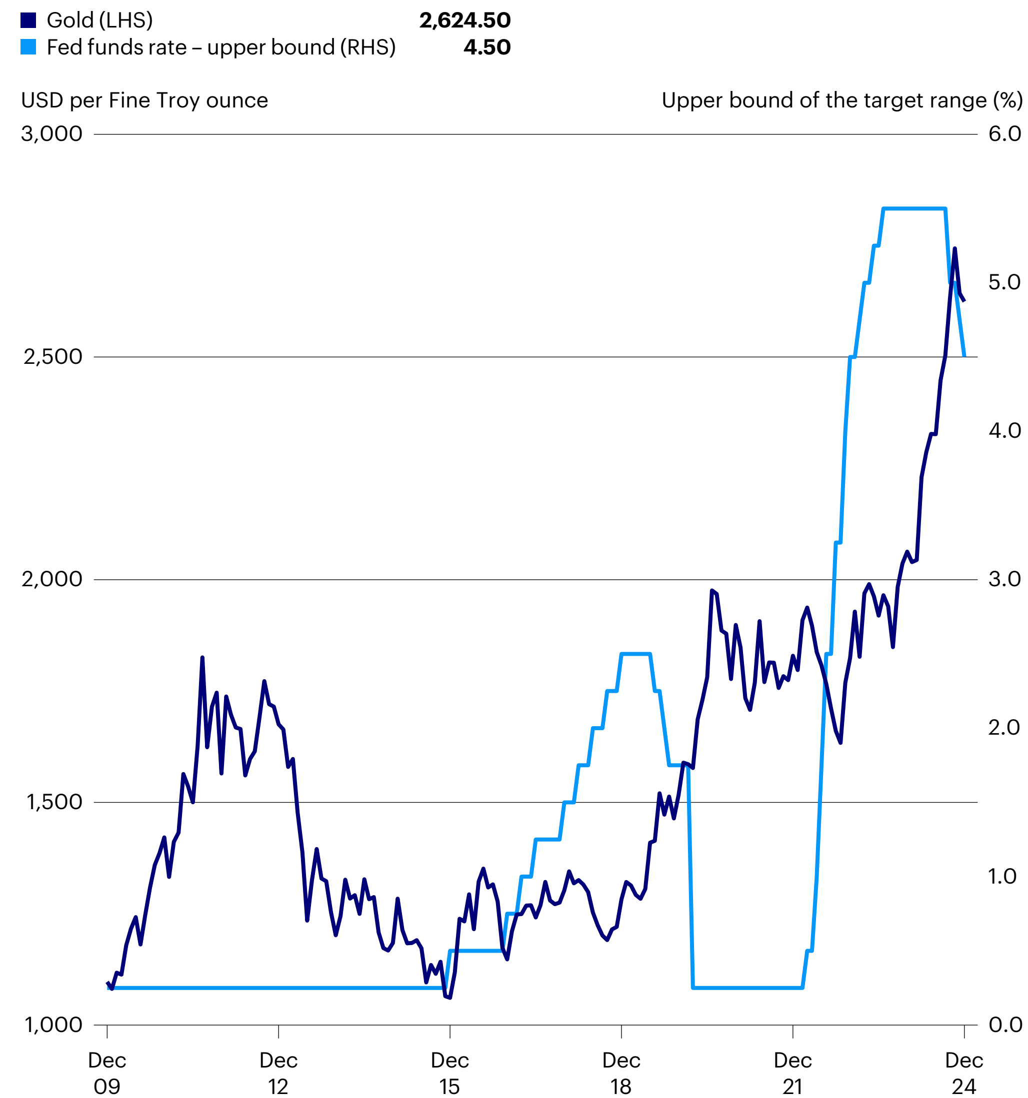
Gold price and US interest rates

The Fed cut US interest rates by 25 basis points (bps) in both November and December, following the 50-bps reduction at its September meeting, meaning the Fed Funds rate ended the year with a target range of 4.25-4.5%. The cuts in Q4 were in line with the Fed's expectations according to the dot-plot of individual members following the committee's September meeting, when the central bank started the current easing cycle.

The forecast for the next two years has shifted, however, with the median expectation of Fed committee members predicting just 50 bps of reductions in 2025 (half of what was expected in September) and the same again in 2026. The revised outlook following the December meeting was due primarily to greater uncertainty around the progress of inflation, including the impact of Trump policies especially related to trade tariffs and immigration. The prospects of a slower rate of reductions to US interest rates negatively impacted the gold price.

Interest rate outlook for 2025

50 bps of cuts



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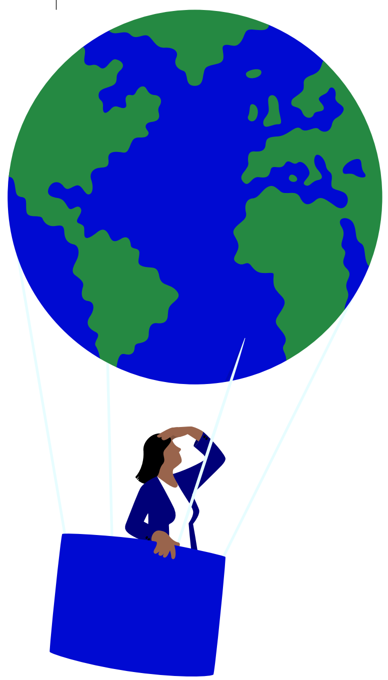
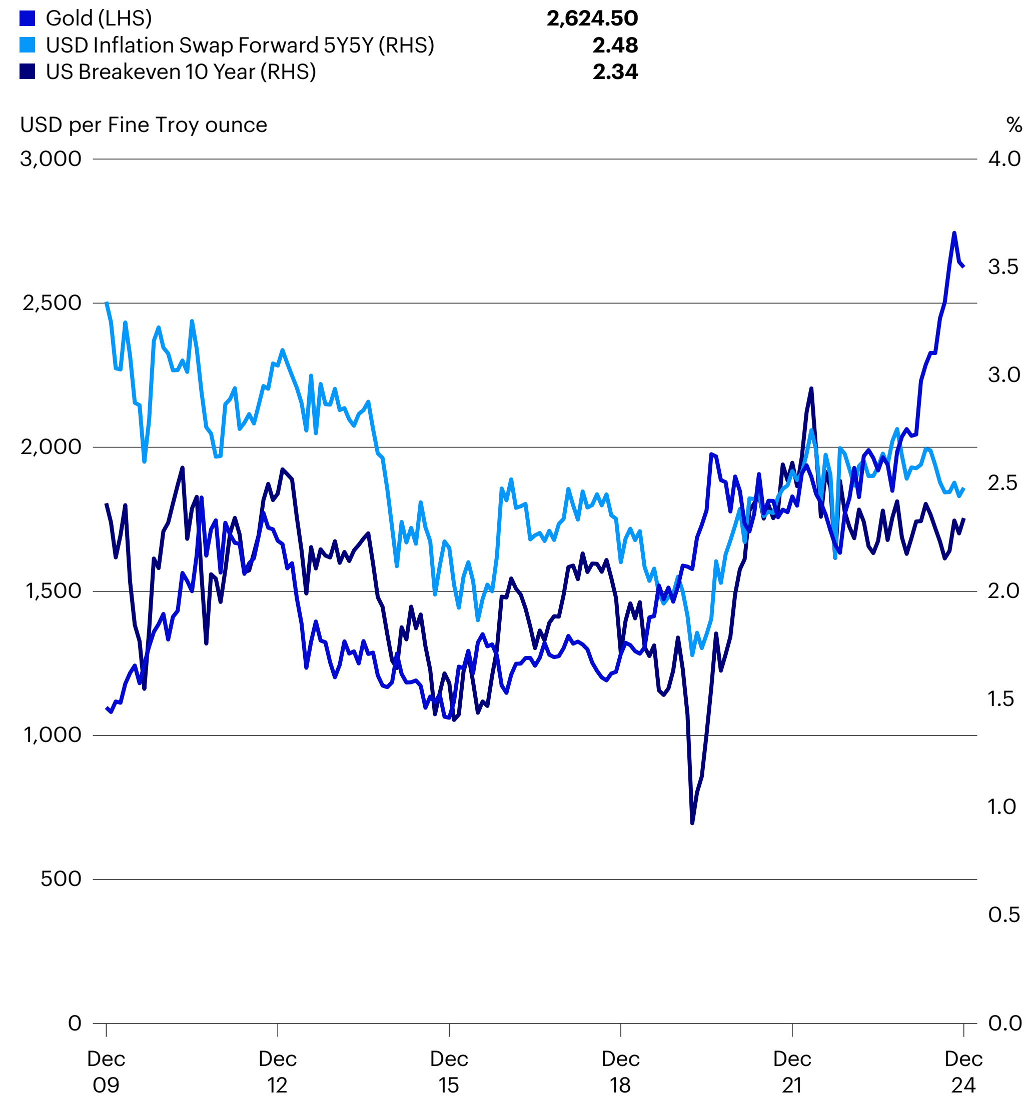
Market performance

Macro factors

Gold price and inflation expectations

The minutes of the Fed's December meeting showed that the committee increased its expectations for inflation in 2025. The committee also increased its growth forecast while reducing its predicted unemployment rate for the end of 2025. This revised outlook could hinder the Fed's ability or willingness to reduce interest rates, which could be negative for gold.





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Gold price and the US Dollar

The USD increased in value versus the currencies of the major US trading partners, with the DXY index rising 7.6% in Q4. The index finished the quarter at 108.5, its highest level since November 2022. USD strength was driven by interest rate differentials. In December, we saw a possible divergence among central banks regarding monetary policy, with the Fed's more hawkish outlook for US interest rates in 2025, along with higher inflation expectations, against a backdrop of more accommodative policy by the ECB, SNB and Bank of Canada, and a pause in rate hikes by the Bank of Japan. The positive outlook for economic growth in the US compared to other countries is also lending support for the USD.

US Dollar Index

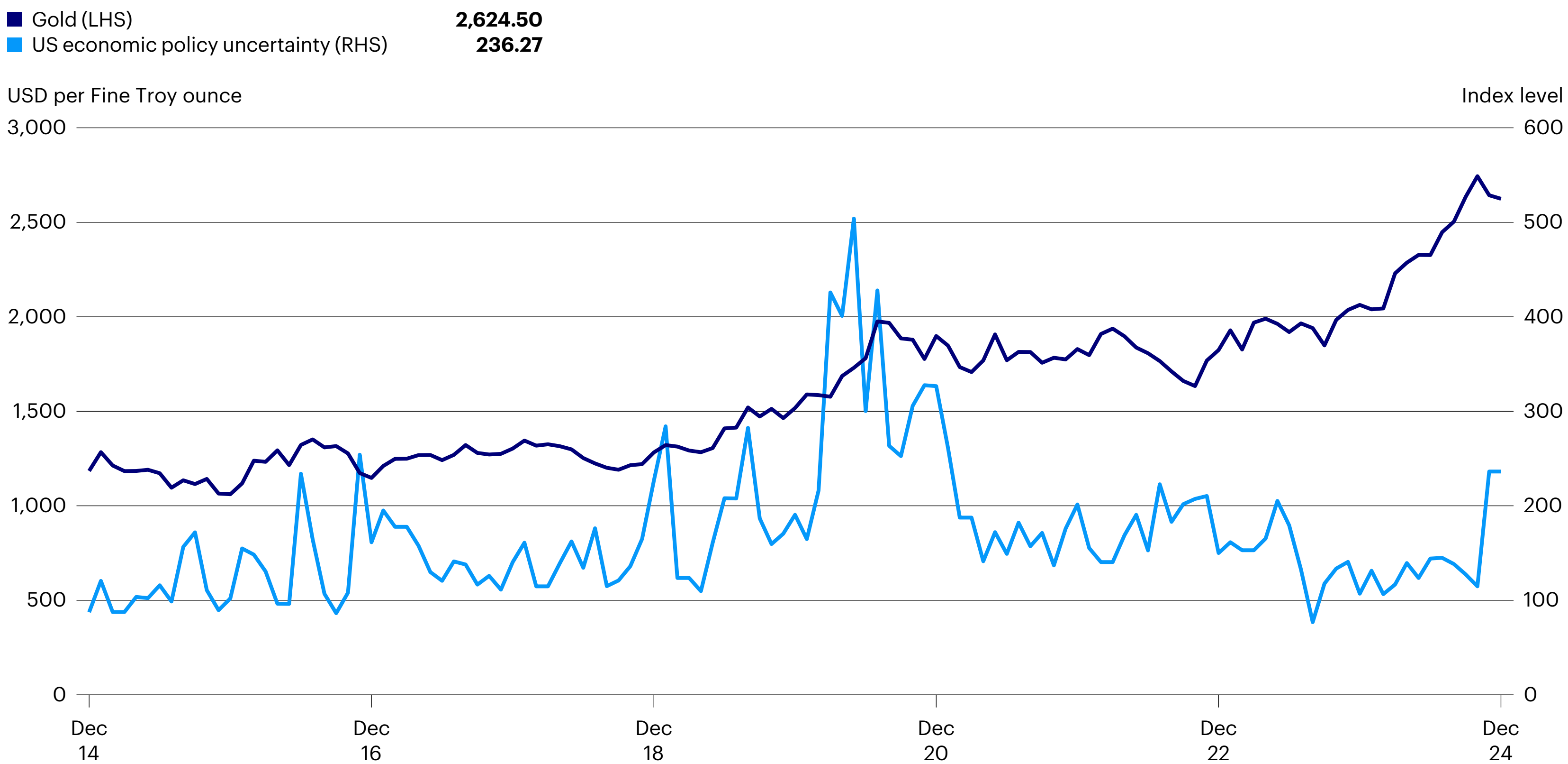
+7.6%

in Q4

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2024.

Gold price and economic risks

The US Economic Policy Uncertainty index rose sharply at the end of 2024, as newspapers increased their coverage of the potential impact of Trump policies on key areas including inflation, growth and the federal deficit. This index is measured by the count of the word 'uncertain' or 'uncertainty' with 'economy' and words related to the federal government. While actual policy decisions can have more definitive outcomes, uncertainty tends to be positive for gold, and so this is a potential support for the gold price in coming months.



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Data as at 31 December 2024, unless otherwise stated.

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EMEA4155899/2024

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