Market performance and macro factors

Gold report

Q1 2024

Introduction

In the first part of 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 Q1 2024

Gold price return in Q1
+8.1%

Real bond yields
1.7%
at end of Q1

US Dollar Index
3.1%
in Q1

Data: Bloomberg, as at 31 March 2024.

Market performance
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The gold price rose 8.1% in Q1, to end March at a new record high of $2,230, the strongest start to a year since 2016. Macro factors continue to be the central driver as markets anticipate the first rate cut by the Fed in this cycle, coupled with heightened geopolitical tensions which sees investors increasing their exposure to gold.

Macro factors
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The US continues to demonstrate resilience in economic growth through the quarter, with data showing consumer spending beating all expectations, supported by the largest increase in wages for more than 12 months. Uncertainty around US economic policy is fading as the consensus view continues to move towards the US avoiding a recession.

Please note that we may refer to supply and demand dynamics in this commentary but will take a more in-depth look into these specific contributors in a subsequent report.

Market performance

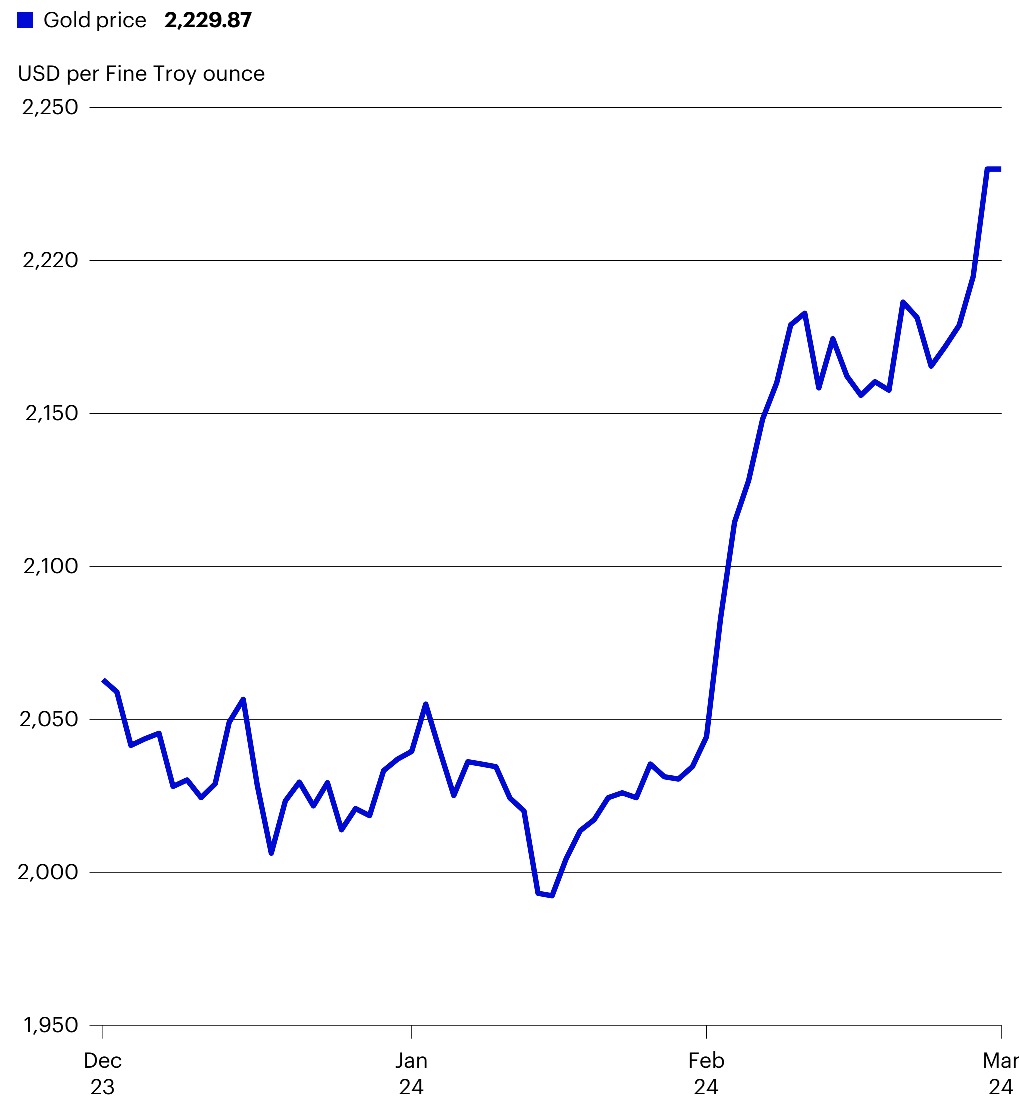
Macro factors

Quarterly price performance

Gold returned 8.1% in Q1 to end March at a new record-high of $2,230. This was the strongest start to a year since 2016 when gold returned 16.2% in Q1 of that year, but behind the previous quarter's performance of 11.6%. Macro factors continue to be the central driver as markets anticipate the first rate cut by the Fed in this cycle, although heightened geopolitical tensions have also seen investors increase their exposure to gold. It is also likely that higher gold repricing has triggered some momentum buying demonstrated by an increase in the volume of long gold futures at the end of the quarter.

Gold price return in Q1

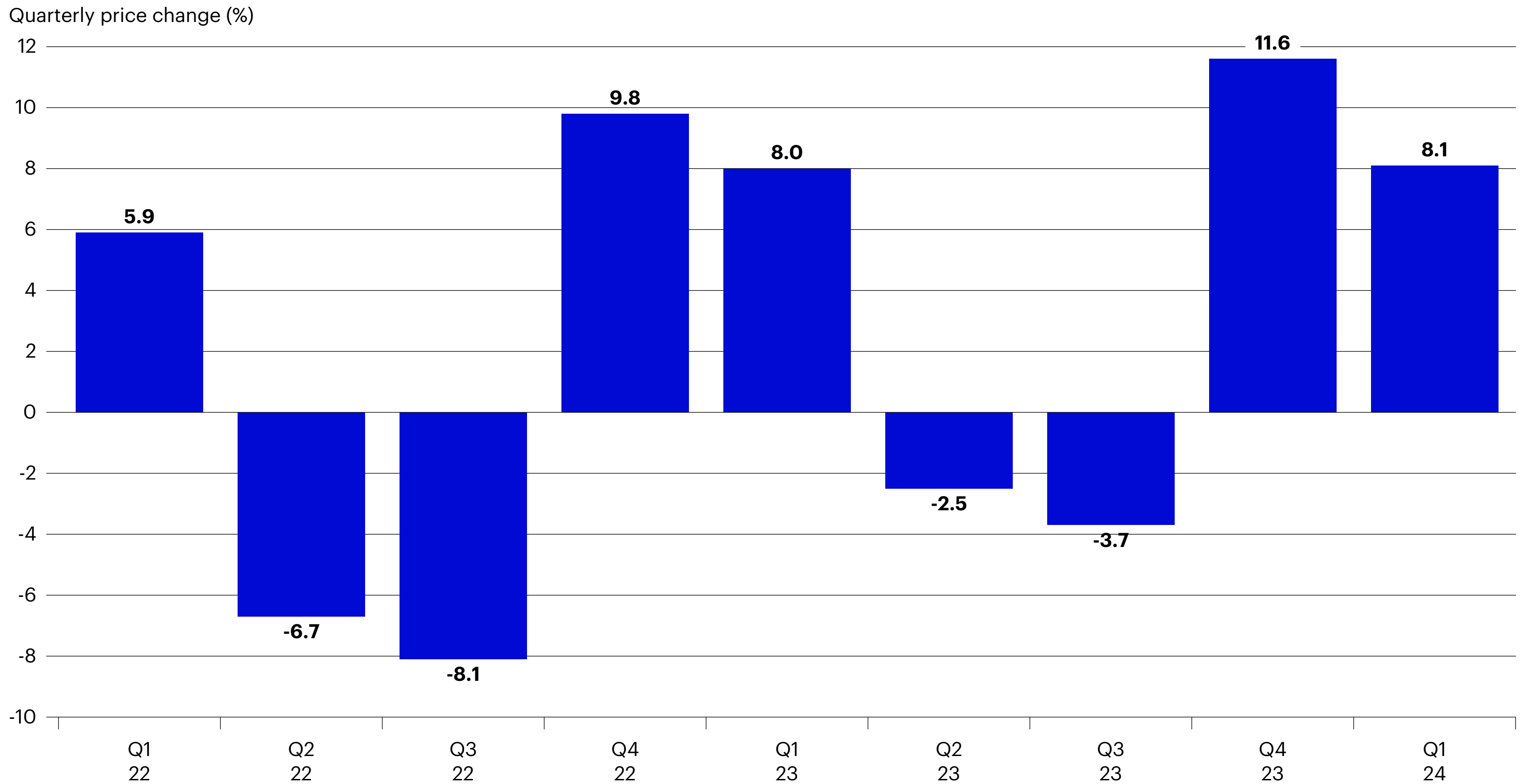
+8.1%



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

Quarterly price returns

Gold made its strongest start to the year for 8 years adding 8.1% in the quarter, marginally ahead of the 8.0% returned in Q1 2023. 12 months ago, gold saw support coming from increased systemic risk concerns in the banking sector following the collapse of Silicon Valley Bank and Signature Bank. Q1 was the best quarter for gold since 2016 when gold returned 16.2% over the 3 months, albeit under very different circumstances; in January 2016 the Bank of Japan surprised and unsettled markets by adopting negative interest rates, a policy only dropped in March of this year.



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Market performance

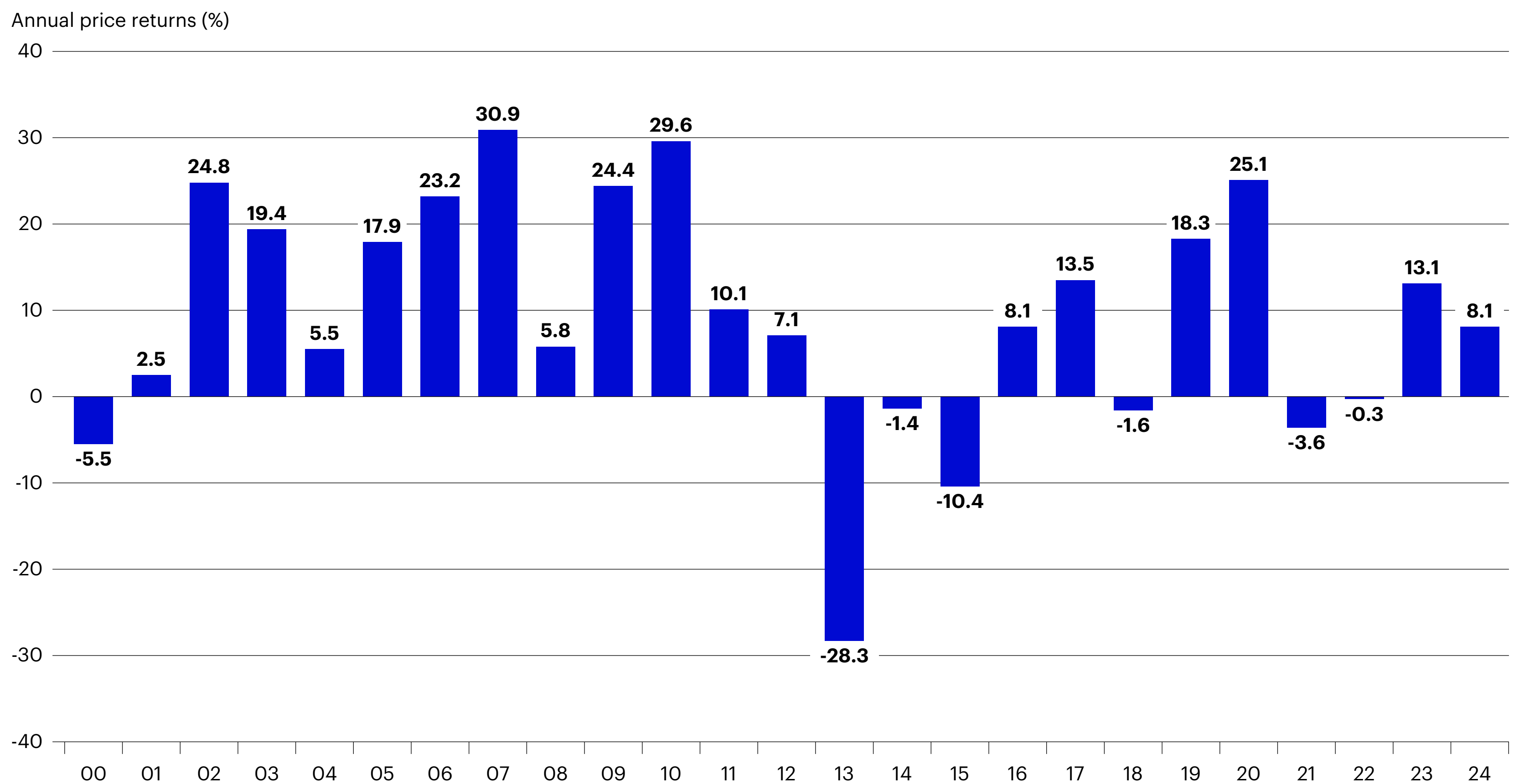
Quarterly price performance
Quarterly price returns
Annual price returns
Asset class returns
Relative strength of the gold price
Gold price return, nominal and adjusted for inflation
G10 currencies

Macro factors

Gold price and real bond yields
Gold price and Fed balance sheet
Gold price and US interest rates
Gold price and inflation expectations
Gold price and the US Dollar

Annual price returns

Historically, a positive Q1 has delivered a positive return for that calendar year's return, as demonstrated in 2023 which delivered 13.1% for the year. The worst recent year for gold was 2013 when the precious metal lost 28.3% of its value; gold's return for Q1 2013 was 4.6%.



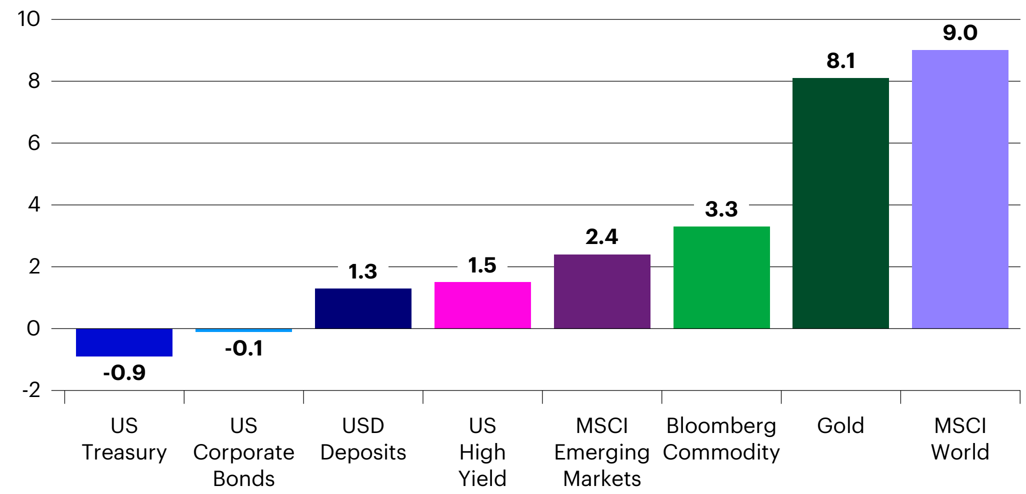
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD.

Asset class returns

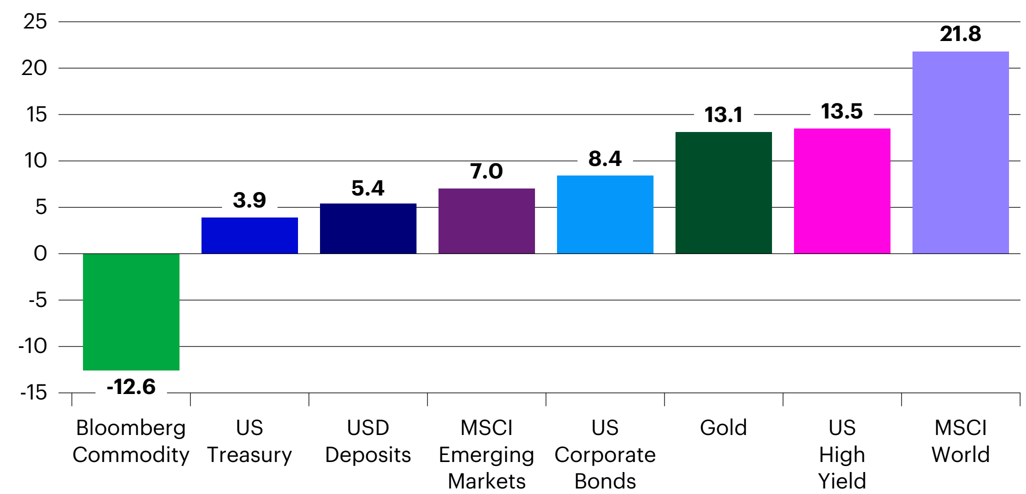
Q1 2024 was a positive quarter for risk assets, as well as gold. In particular, Japanese equities outperformed global equity benchmarks as policy changes continued to have an impact as AI-related stocks (concentrated in the US) also demonstrated outperformance. European equities also were strong performers, particularly southern Europe. As inflation proved stickier than expected, market pricing of US rate hikes were pushed to later in the year causing US investment grade fixed income (Treasuries and credit names) to deliver negative returns and underperform cash.

The continued performance of Japan and AI-related stocks meant equities were the best performers, also on a 12-month basis. Over the past year commodities were the worst performer in aggregate; natural gas has seen significant price falls over the past 12 months as well as soft commodities, specifically corn and soybeans.

Change over the quarter (%)



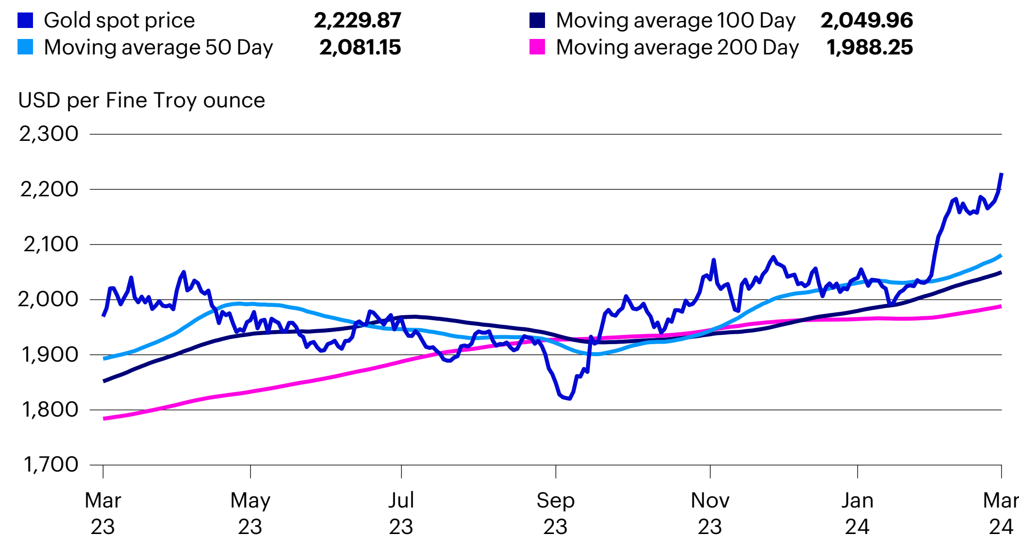
Changes in 12 months (%)

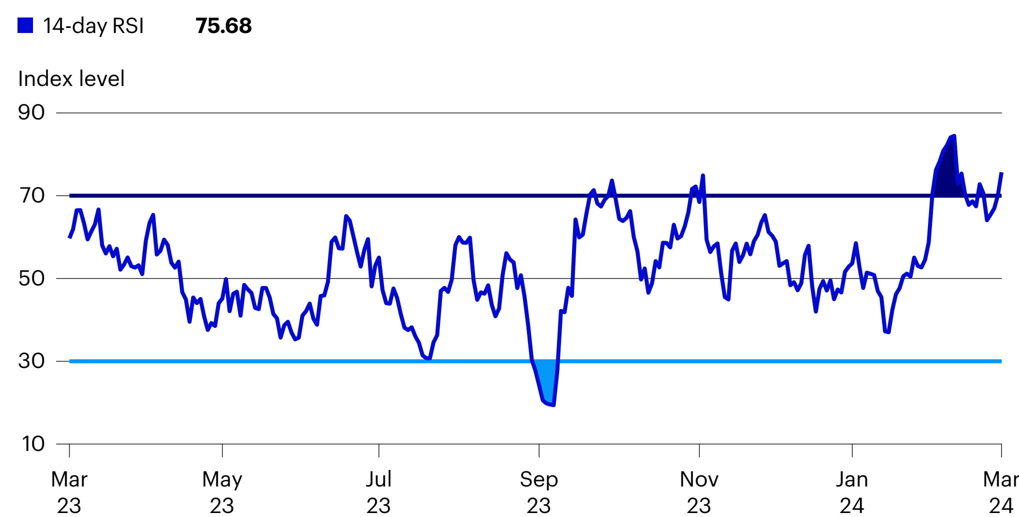


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 31 March 2024.

Relative strength of the gold price

As gold set new price records over consecutive days, the relative strength indicator flagged a relatively long period of overbought status. That the spot price is comparatively far from its 200-day moving average also points to stretched pricing in the immediate term and a period of consolidation would not be surprising, as the fundamentals remain positive for gold.





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

Gold price return, nominal and adjusted for inflation

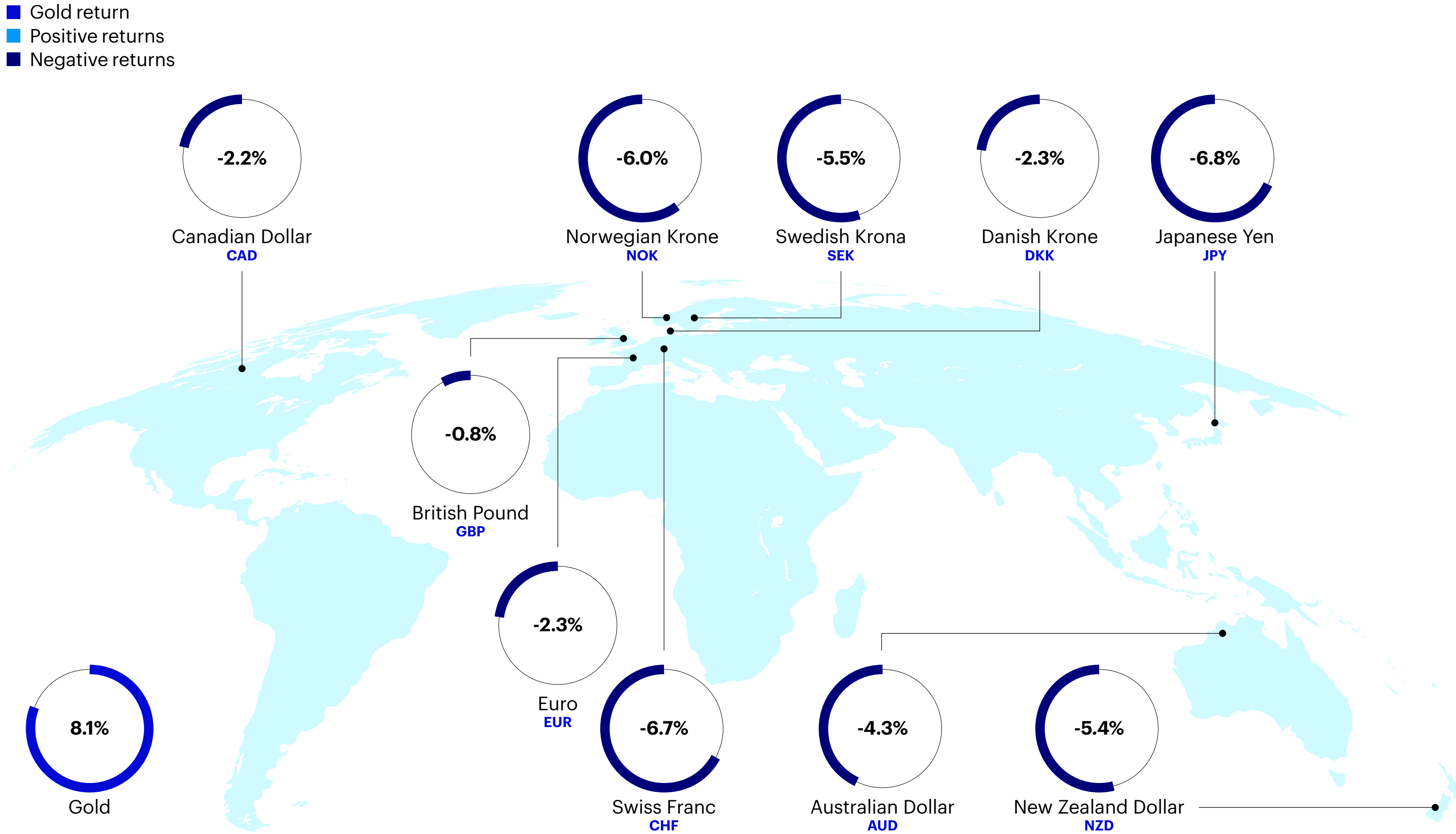
Although new records have been set on a nominal basis, gold when adjusted for inflation is yet to retest its real-price record set in the early 1980s when the metal peaked at over $800 against an equivalent level of $718 today. In real terms gold generated a return of 6.8% in Q1 and a real return of 10.1% over the past 12 months.

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

G10 currencies

For the second consecutive quarter gold outperformed all major developed market currencies. This was as the USD was universally strong following market expectations for the number of Fed rate cuts in 2024, falling to three from six over the quarter. This was the sharpest adjustment to anticipated central bank actions; the general theme was higher for longer as progress on inflation slows, whilst approaching target and economic growth surprised on the upside.

Q1 returns of gold and G10 currencies in USD (%)



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Market performance

Macro factors

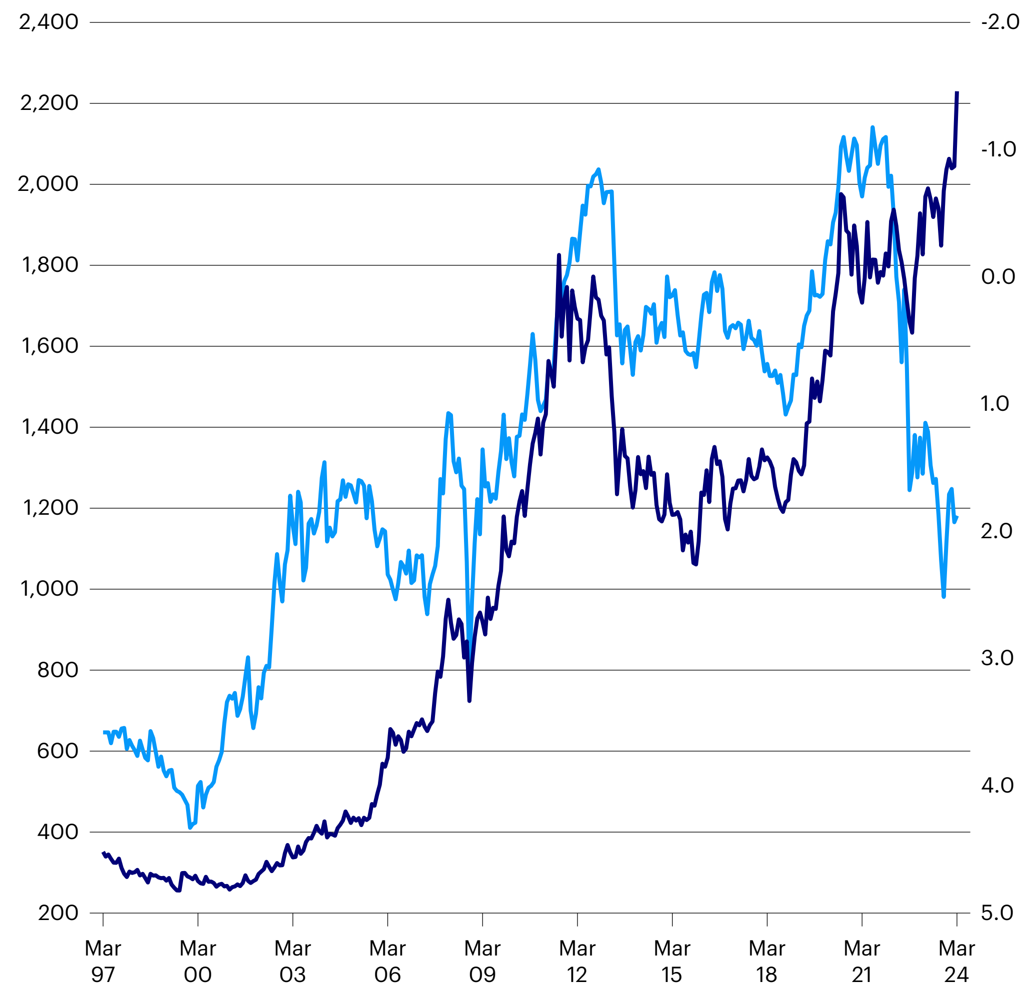
Gold price and real bond yields

The gold price hit new highs despite the yield on the 10-yr US TIPS also ending Q1 2023 higher, 1.88% from 1.71%. The US has continued to demonstrate resilience in economic growth through the quarter with data showing consumer spending beating all expectations supported by the largest increase in wages for more than 12 months. Albeit there have been remarkable swings in the non-farm payroll data, at the end of the quarter US employment data was looking softer, which will be a closely watched point going forward. To reconcile higher real yields with record gold prices it could be said investors have been looking for entry points ahead of rate cuts, which are anticipated to provide further upside for gold from here.

Real bond yields

1.7%

at end of Q1



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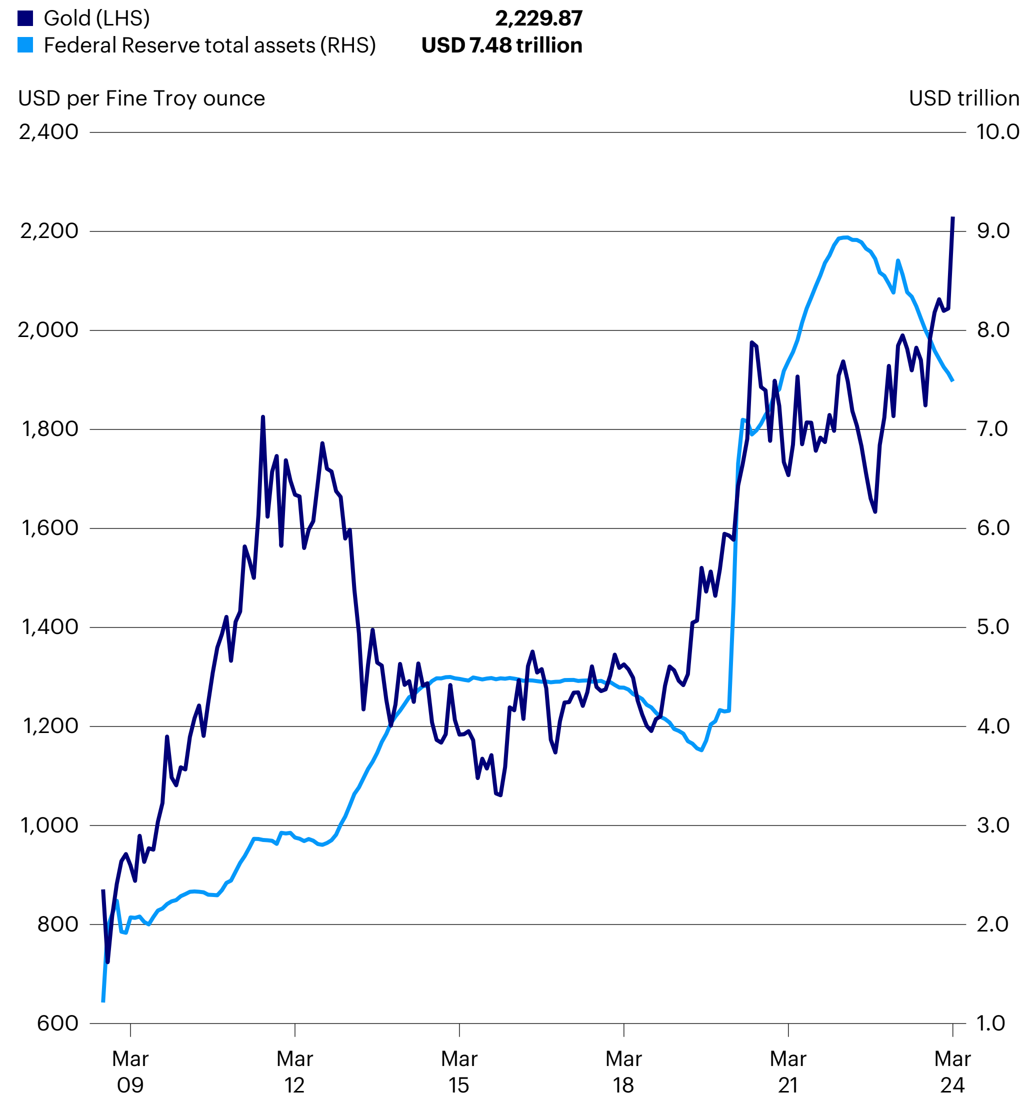
Gold price and Fed balance sheet

In Q1 the Fed's balance sheet contracted a further 3.0% to $7.5tr, taking it back to levels seen in Q1 2021. This is the slowest reduction since the Fed initiated additional support to US banks on the back of the Signature Bank and Silicon Valley Bank failures in Q1 2023. The Fed is expected to taper its Quantitative Tightening program in the near future, and comments by Fed staff in the quarter to that effect coincided with large domestic US banks significantly increasing their purchases of US Treasuries.



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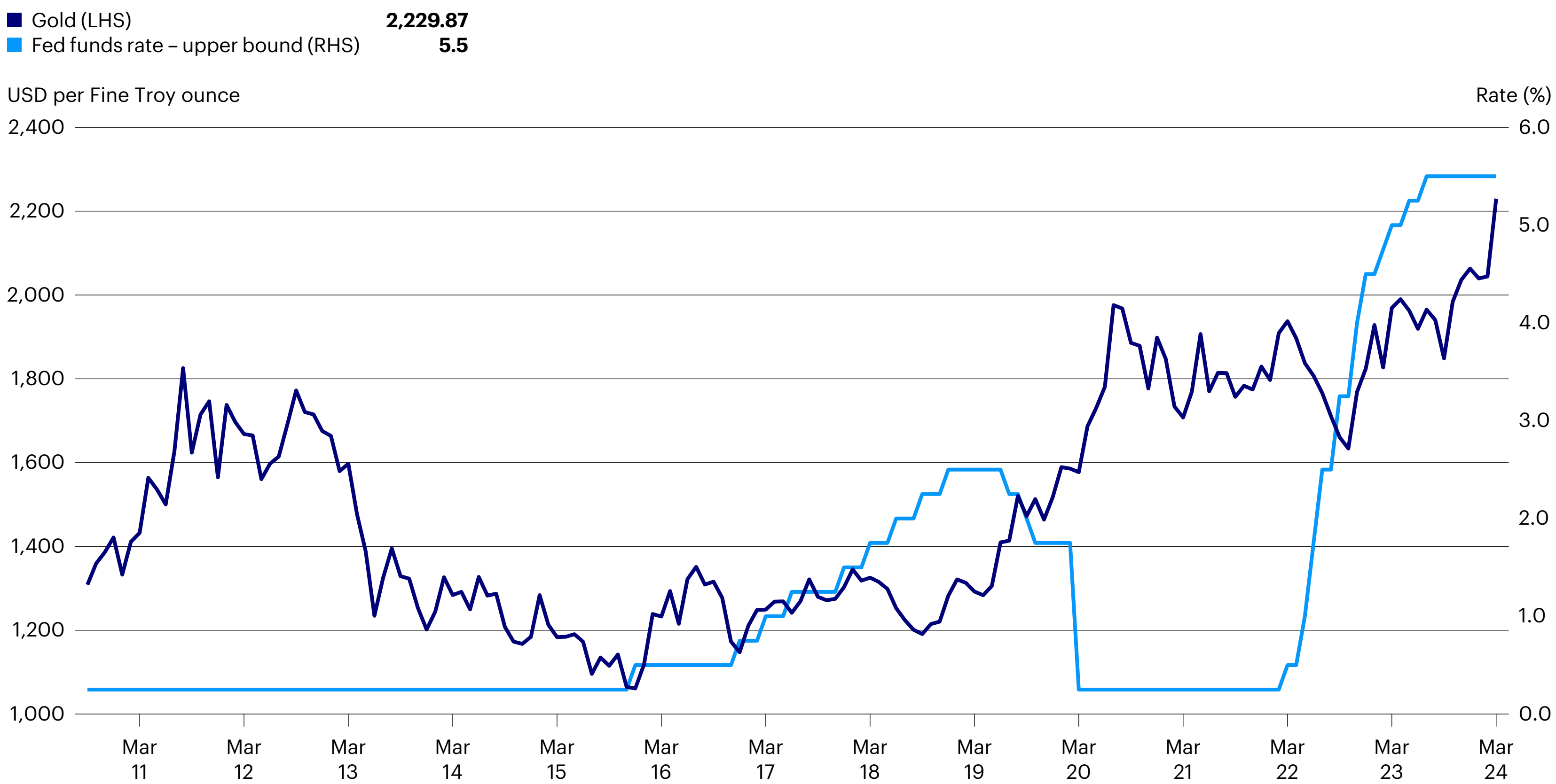
Market performance

Macro factors

Gold price and US interest rates

At the end of March, Fed Chair Powell noted that as the US labour market continued to be very strong, supporting the economy, this would allow the Fed a longer window of opportunity before needing to cut rates and risking the reacceleration of inflation. The updated Fed dot plot in March was little changed from the previous published in Q4 2023, despite signs of higher inflation. This caused markets to be more optimistic of the first rate cut to be taken in June. The Fed funds rate remained at 5.5% through the quarter.



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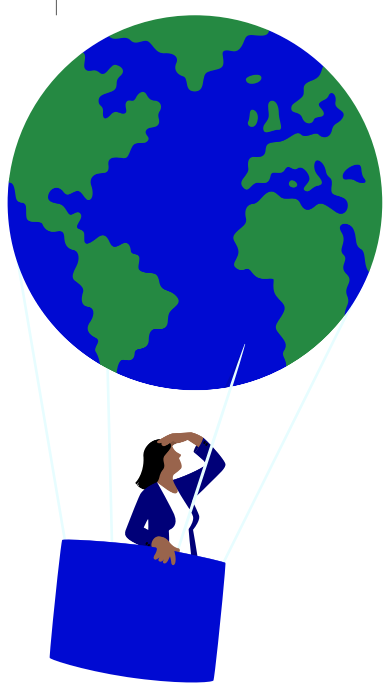
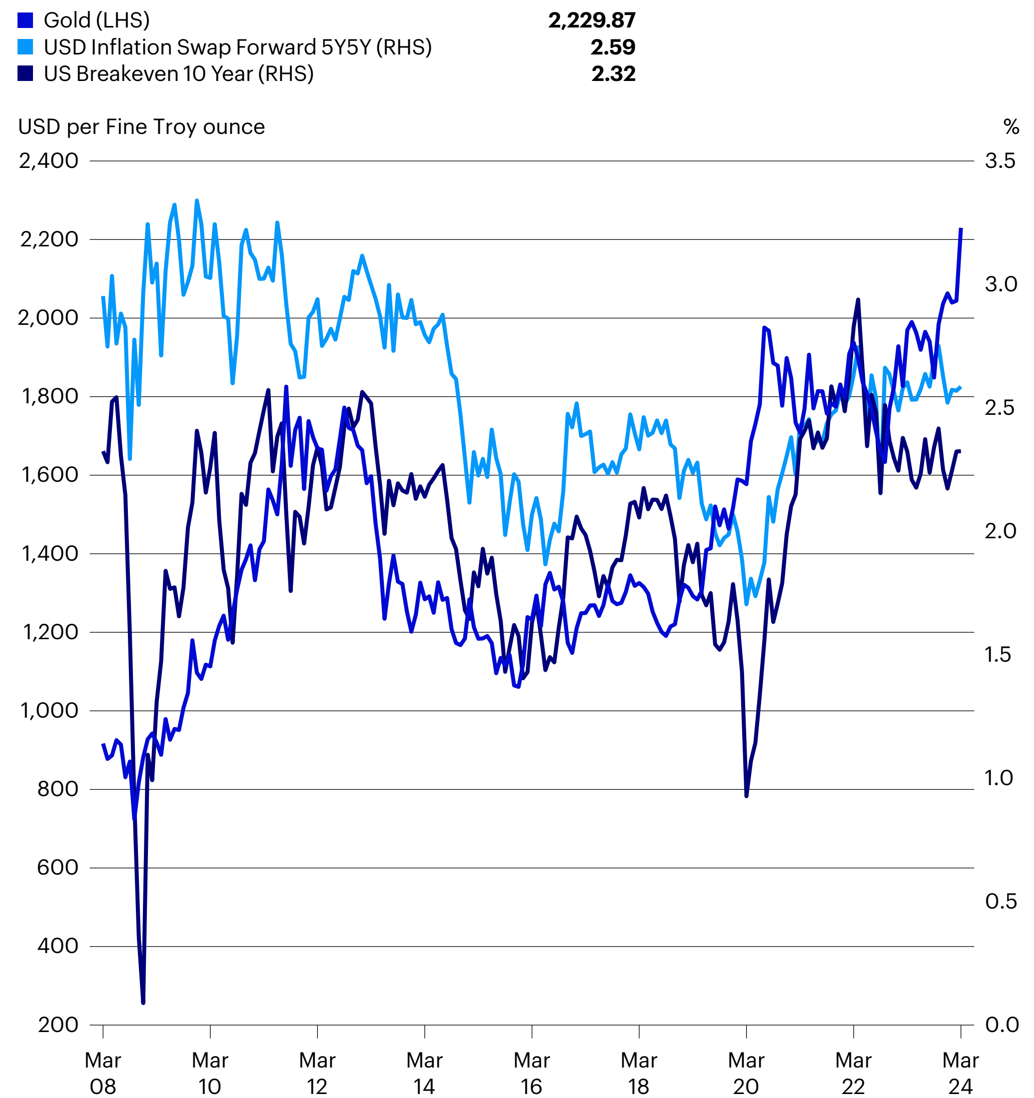
Market performance

Macro factors

Gold price and inflation expectations

On determining the appropriate interest rate level, markets have been more attuned to inflation data this quarter. Market expectations of inflation using both swap and breakeven measures were both slightly higher as CPI data showed inflation being stickier than anticipated. Strong wage growth also gave pause for thought, owing to the solid correlation between wage inflation and CPI data as the Fed did slightly lift its projections of near-term PCE inflation – its preferred reference measure when setting the Fed funds rate.





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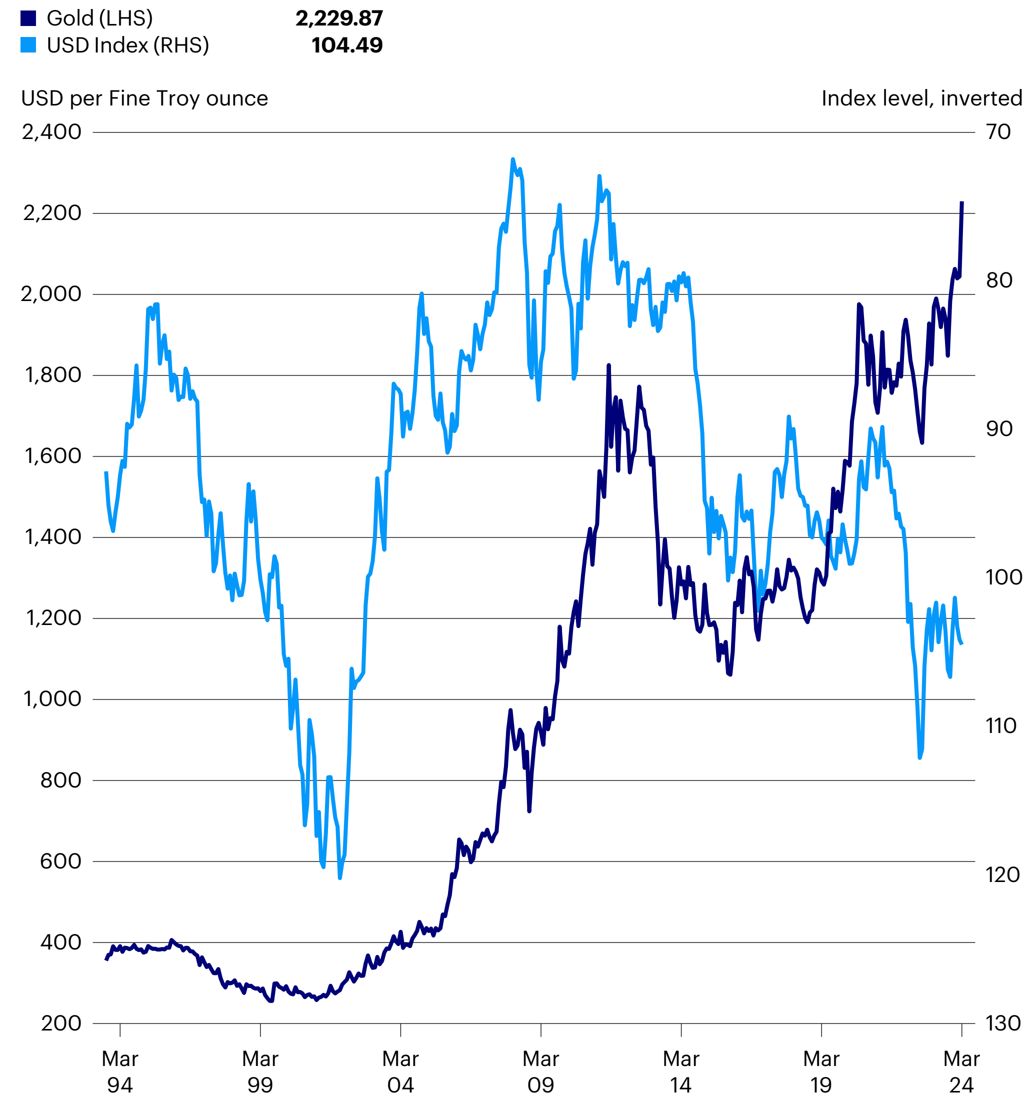
Gold price and the US Dollar

Gold was able to deliver a positive return despite a 3.1% appreciation in USD over Q1, as measured by the DXY index. Perhaps dollar weakness was overdone (and subsequently corrected) at the start of the quarter, but more importantly to the stronger dollar was the repricing of the number of rate cuts coupled with a delay in expectations of the first rate cut. Higher for longer rates supported by an economy that is growing at both an absolutely and relatively stronger pace keeps the USD attractive.

US Dollar Index

3.1%

in Q1



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Data as at 31 March 2024, unless otherwise stated.

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