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Gold Market Commentary

Jumbo cut drives gold rally

Fresh highs in September

Following strong monthly increases in July and August, gold posted another healthy gain in September to finish 4.6% higher at US$2,630/oz. It etched new highs eight times, with the latest one falling on 26 September before a very marginal decline into month end (**Table 1**).

According to our Gold Return Attribution Model (GRAM), gold was pulled higher by a further drop in the US dollar as the Fed embarked on its rate-cutting programme with a somewhat surprising 50bps cut (**Chart 1**). And similar to last month, the main identifiable negative contribution came from a momentum factor: the gold return in the previous month, which, when high, has a tendency to pressure the following month's return lower. And vice versa.

Also of note in September, rising geopolitical tensions in the Middle East that have continued into October, helped the gold rally. And global physically-backed gold ETFs extended their inflow streak to five months. North American funds contributed the lion's share of flows.

September review

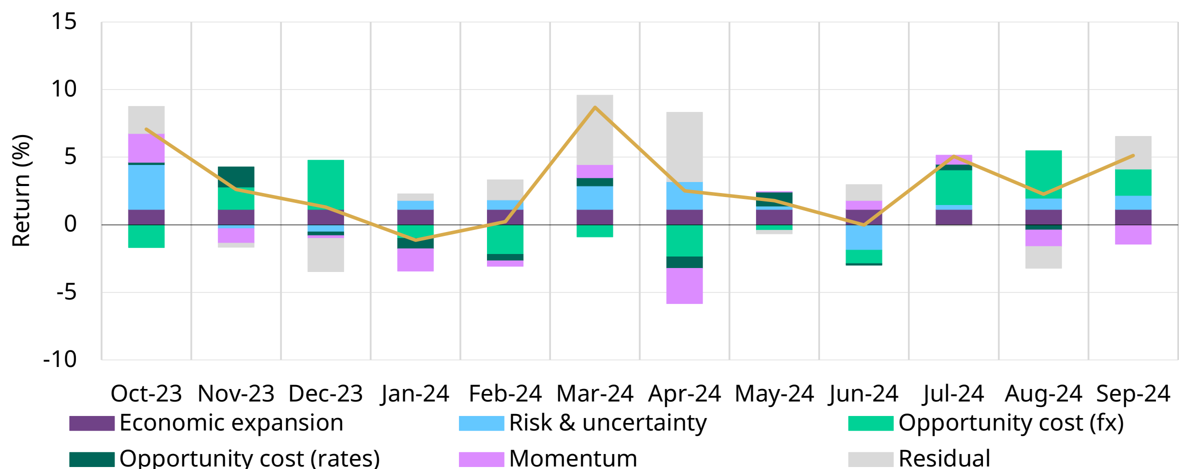
Gold had another stellar month, driven by escalating geopolitical tensions and a jumbo 50bp rate cut from the US Fed.

Looking ahead

Lower yields and wavering corporate spreads suggest we are in a gold-friendly environment. Elevated geopolitical risk should lend further support.

Chart 1: Continued weakness in the US dollar and an uptick in geopolitical risk helped propel gold higher in September

Multifactor model detailing attribution of gold's drivers on its monthly returns*



*Data to 30 September 2024. Our Gold Return Attribution Model (GRAM) is a multiple regression model of gold price returns, grouped into four thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of returns in the short run. 'Residual' captures the share of gold returns that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from June 2019 to August 2024. We have reduced the estimated window to five years to better reflect current conditions.

Source: Bloomberg, World Gold Council

Table 1: Gold continued to post exceptional gains in September across all major currencies

Performance of gold in various currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
September price	2,630	2,359	12,101	1,962	3,552	2,221	70,858	593	89,945	3,790
September return	4.6%	3.7%	2.5%	2.5%	4.8%	4.0%	4.6%	3.6%	5.0%	2.0%
Y-t-d return	26.5%	25.3%	28.4%	20.2%	29.1%	27.0%	27.4%	25.1%	46.6%	24.2%

*Data to 30 September 2024. Based on the LBMA Gold Price PM in USD, expressed in local currencies.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

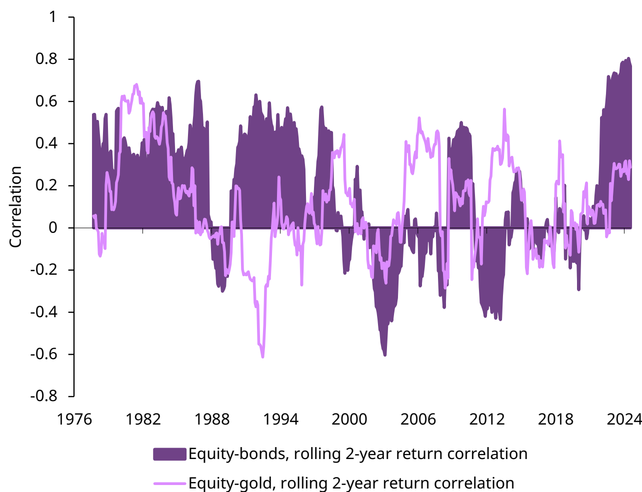
Looking ahead

- Equities and bonds have become increasingly correlated over the past two years, a trend we expect to continue
- Borrowing from a simple macro framework incorporating bond yields and corporate spreads, we are entering a gold-friendly environment of lower yields, wavering spreads and continued elevated equity-bond correlations.

Two years after both equities and bonds lost value – the first time this had happened for 53 years – the two continue to be highly correlated (Chart 2), although at least they are now going in the right direction…so far in 2024, both are up. While investors stand to gain, this high correlation undermines diversification benefits and raises total portfolio risk.

Chart 2: Bonds have a higher correlation to equities and therefore contribute more to overall portfolio risk

Rolling 2-year equity-bonds and equity-gold correlations*

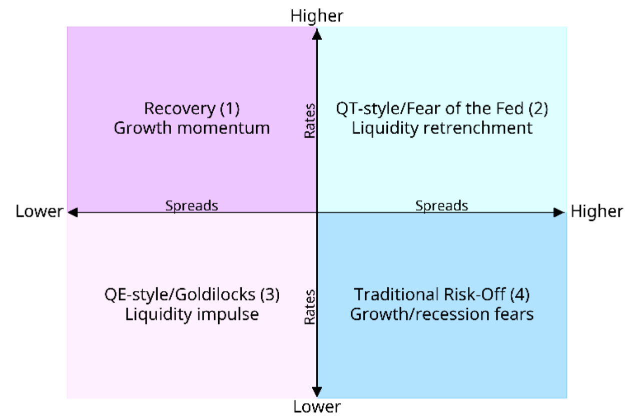


*Data from January 1976 to September 2024. MSCI World used for equity returns, the Bloomberg US Agg Index for bond returns and LBMA Gold Price PM in USD for gold returns.
Source: Bloomberg, World Gold Council

A recent report, based on a simple macro framework combining yields and corporate spreads, suggests that correlation is set to stay on this track.[1] If this pans out, it will present many investors with a fundamental challenge around how to approach diversification; risk managers will continue to be nervous and interest in a diversifier and hedge like gold will likely remain high.

The framework divides the macro environment into four phases (Chart 3): *QE-style goldilocks*, *fear of the fed*, *recovery*, and *risk-off*, with each phase defined by the direction of bond yields and corporate spreads.

Chart 3: The four global macro regimes

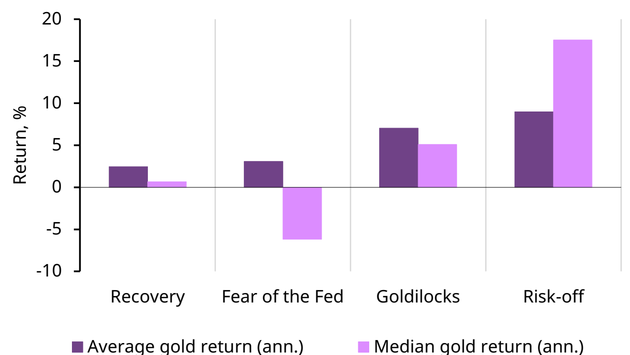


*As of 30 September 2024
Source: MFS, World Gold Council

The median historical returns for each phase can be seen in Chart 4. Unsurprisingly, *risk-off* is the best environment for gold, followed by *QE-style goldilocks*. The latter is also characterised by a higher equity-bond correlation.

Chart 4: Gold performs best in a risk-off environment

Gold's returns in the four global macro regimes*



*Annualised returns from June 1989 to September 2024. Bloomberg US Agg Yield to Worst for yields. Bloomberg US Agg Corporate Average OAS for spreads. LBMA Gold Price PM in USD used for gold returns.
Source: Bloomberg, World Gold Council

[1] The Big Mac on Fixed Income Allocation (mfs.com)

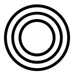
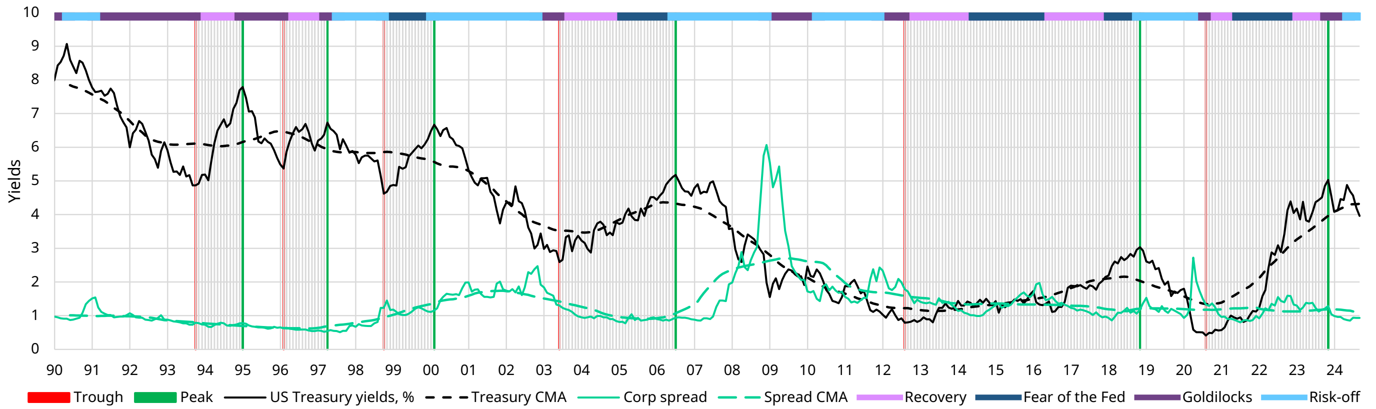


Chart 5: Falling yields and stable spreads suggests we may be entering a goldilocks phase

US treasury yields and corporate spread evolution through different macro regimes*



*Data as of 30 September 2024. Regimes selected using local minima and maxima where the value was the lowest (highest) value in a centred moving average (CMA) range of 20 weeks. Bloomberg US Agg Yield to Worst used for yields. Bloomberg US Agg Corporate Average OAS used for spreads.
Source: Bloomberg, World Gold Council

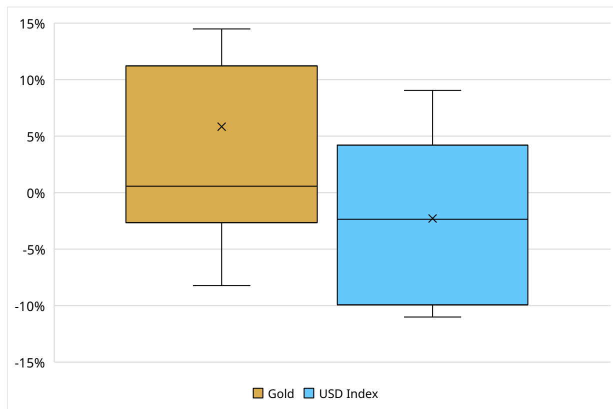
Having experienced an acute volatility episode in early August, we found ourselves in a *risk-off* environment by the end of August (blue sector in **Chart 5**) – one that sees spreads widen as yields fall.

Zooming in on the likely sequencing of macro environments, a risk-off environment has historically been followed by a *QE-style goldilocks* environment 70% of the time. The least likely successor, based on this framework, is *recovery*, which coincidentally sees the lowest average returns for gold, as per **Chart 4**.

As we find ourselves in the balance between a soft and hard landing, current market dynamics suggest a *QE-style goldilocks* scenario is the most logical next step, with corporate spreads wavering.

Chart 6: Aggressive cutting cycles have served gold well

Gold and USD returns in the first six months of a rate cut cycle over the past 40 years*



*Data from January 1984 to August 2024 covering the past 10 Fed easing cycles. Calculation based on the LBMA Gold Price PM, and DXY Index.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

The Fed kickstarted its easing cycle with a 50bps rate cut in September, and the next chapter in the global macro narrative should involve broad and substantial rate cuts, which should be supportive of risky assets.

It is worth noting that gold stands to benefit. It has historically returned an average of 6% in the six months following the start of rate cutting cycles (**Chart 6**).

In summary

Against a backdrop of high equity-bond correlation and shifting macro phases, the outlook for gold offers investors diversification and a hedge against broader portfolio risk.

Add to this support from central bank buying, rising demand from key markets like India, and the return of Western ETF investors, and the recent escalation in Middle-East tensions, gold is well positioned to benefit from these evolving market conditions.

World Gold Council

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