Market performance and macro factors

Gold report

Q2 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 Q2 2024

Gold price return in Q2
+4.3%

Gold price return YTD
+12.8%

Real bond yields edged higher to
2.1%
at end of Q2

Number of expected Fed rate cuts
Two
by the end of 2024

US Dollar Index
+1.3%
in Q2

Data: Bloomberg, as at 30 June 2024.

Market performance

Pages 03 – 09

The gold price rose 4.3% in Q2 2024, ending the period at US$2,327 after setting a new all-time high of $2,450 earlier in the quarter. This marked the third-successive quarterly price gain and was the best Q2 performance since 2020. Gold has returned 21.2% over the past 12 months, making it one of the best-performing assets during this timeframe.

Macro factors

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Despite increasingly hawkish commentary from Fed officials, the market is currently expecting two Fed rate cuts before the end of the year. Central bankers should be encouraged by recent inflation data suggesting pricing pressures may be easing.

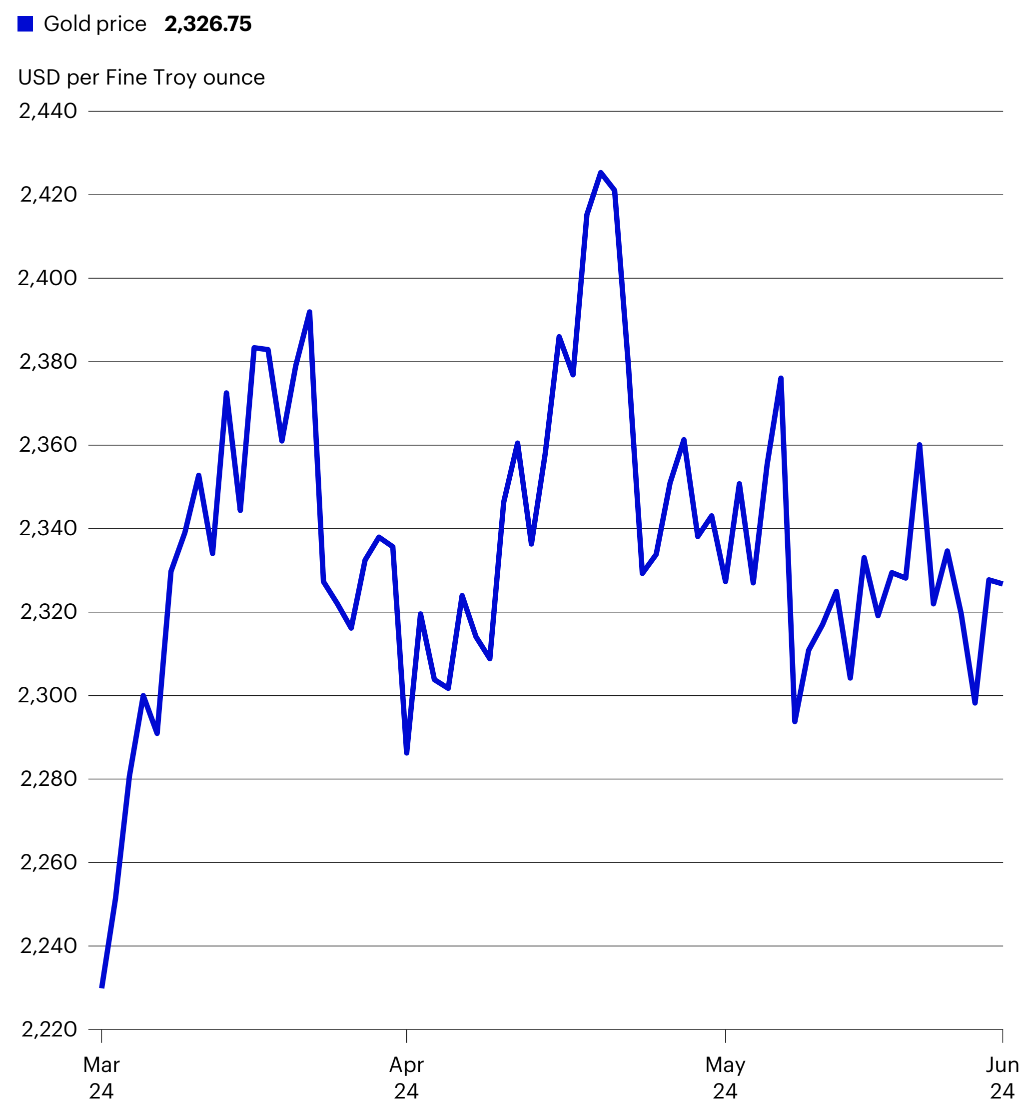
Please note that we may refer to supply and demand dynamics in this commentary but will take a more in-depth look into these specific contributors in a subsequent report.

Quarterly price performance

The gold price appreciated 4.3% in Q2 2024 to end the quarter at $2,327. During the period, gold did generate several new all-time highs, however, with the new record price of $2,450 made after markets opened on 20th May. There were three key drivers of gold over the quarter: geopolitical risks, central bank purchases and macro factors captured through expectations of when the Fed will make its first rate cut this cycle.

Gold price return in Q2

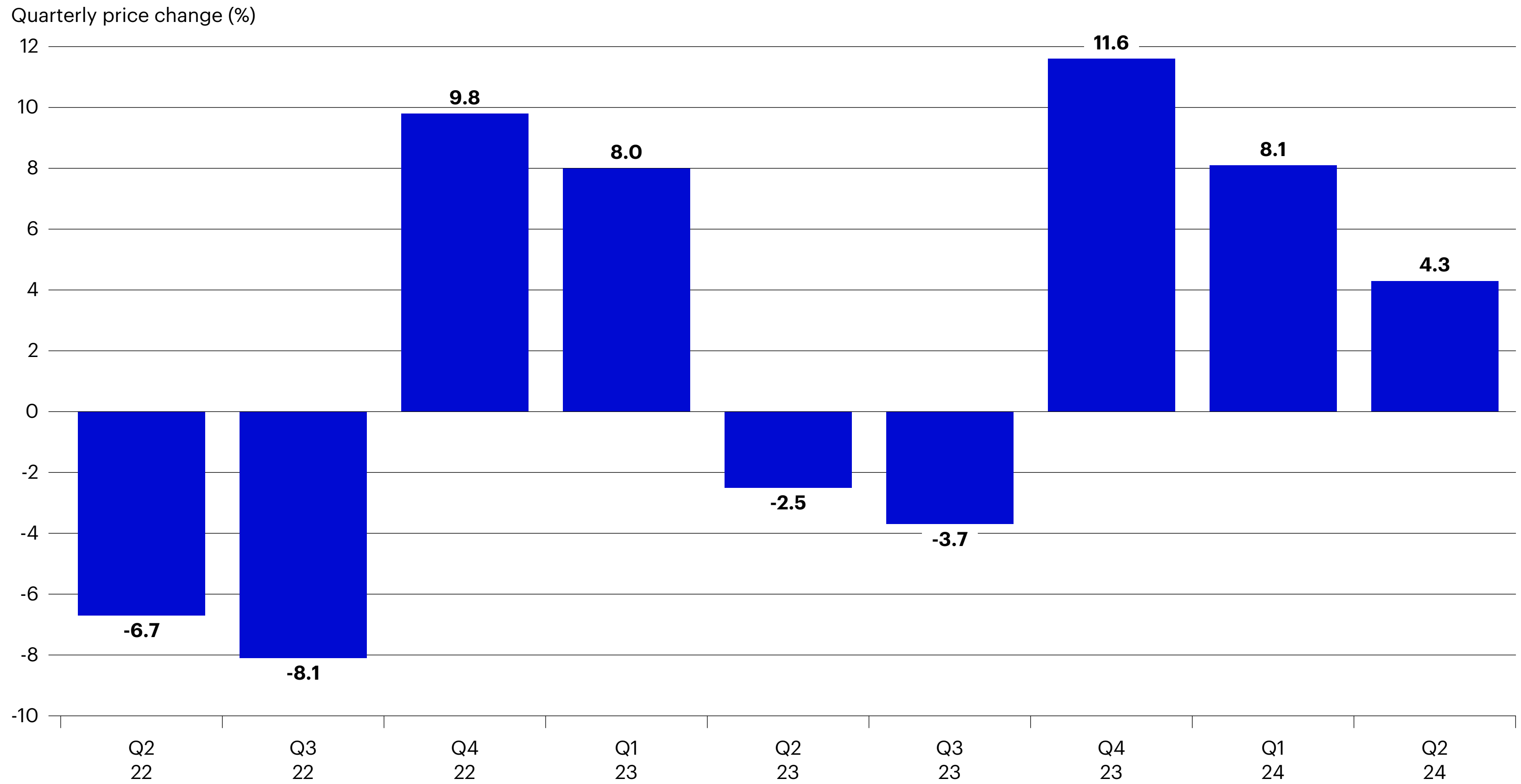
+4.3%



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

Quarterly price returns

Gold generated a further 4.3% in Q2, stretching its strong performance to a third consecutive quarter. Q2 2024 also compares favourably to Q2 2023 when the metal's price fell 2.5% with rising real yields in the US. As seasonality is important for gold (given the influence of Asian jewellery demand), it's worth noting that Q2 is a typically weak month for the metal, and this was the strongest Q2 since 2020, which was the previous record-breaking year.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 June 2024.

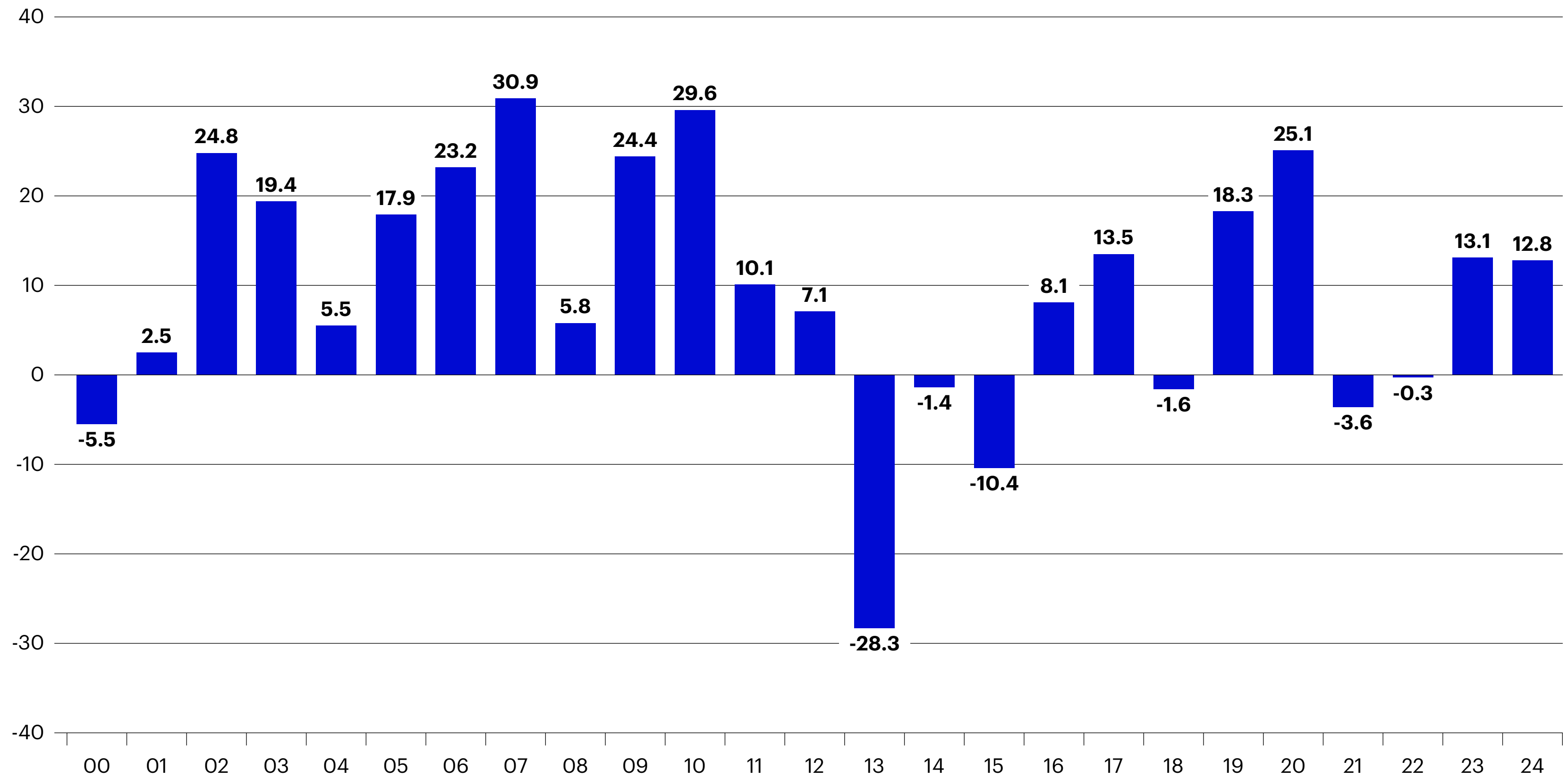
Annual price returns

Year-to-date the gold price has increased 12.8%; gold has delivered nearly all of 2023's returns in the first six months of 2024. There is a lot that could change in the second half of the year. 2024 is a remarkable year in terms of the percentage of the world's population and GDP that is subject to a national election. In the second half of 2024, notable elections take place in the UK and France in July and the US goes to the polls in November. This is on top of the long-awaited Fed rate cut, which is currently priced in for Q3 2024.

Gold price return YTD

+12.8%

Annual price returns (%)



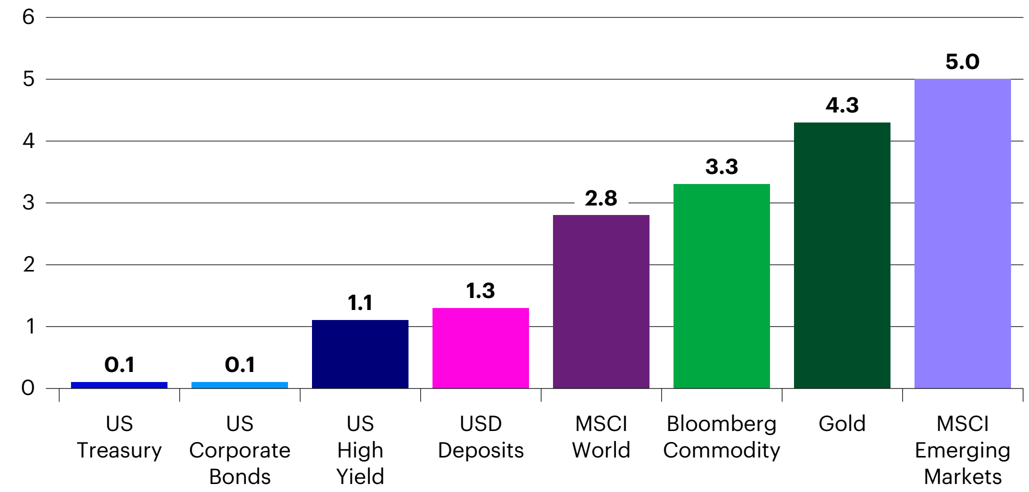
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD. "2024" is YTD to end-June.

Asset class returns

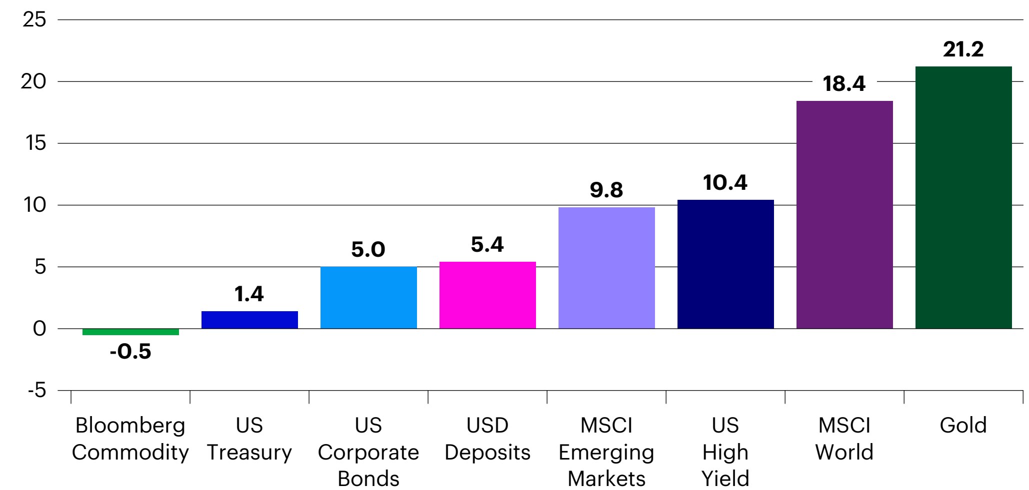
Q2 2024 was a positive quarter for risk assets, with emerging market equities delivering a relatively strong performance. In particular Taiwan and India outperformed the wider emerging market equity benchmark, while there was also solid performance from Eastern Europe. Emerging markets were held back by notably Brazil and Mexico. Gold outperformed the other major asset classes.

Over the past 12 months, gold has outperformed the major asset classes, even with the thematic trade of AI boosting US equity markets specifically and the momentum behind Japanese equities. The persistence of inflation has made it a difficult backdrop for fixed income markets, although the better-than-anticipated economic environment has aided the performance of high yield bond indices.

Change over the quarter (%)



Changes in 12 months (%)



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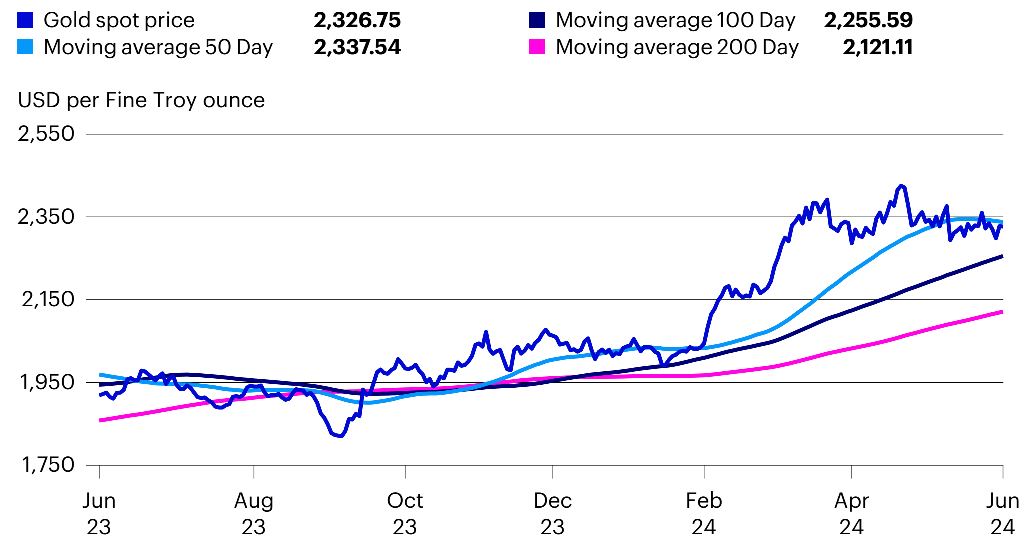
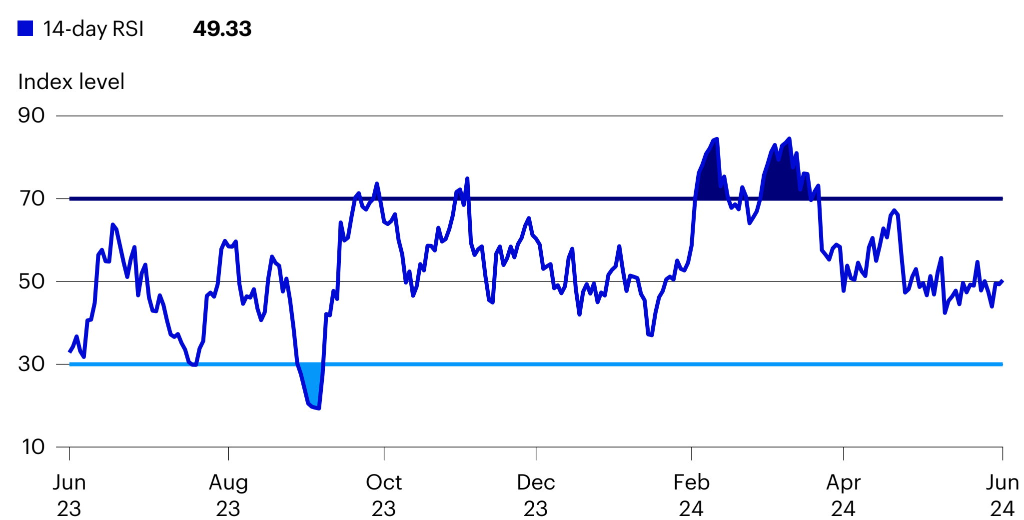
Relative strength of the gold price

The stabilisation of the gold price into quarter-end saw the 50-day average level plateau and marginally dip. Should the 50-day line cross below the 100-day average, this would create a technical sell signal; however, with the anticipation of Fed rate cuts, this could present an entry opportunity for non-technical investors. As the increase in the gold price moderated through the quarter, the metal moved away from the overbought trigger on the 14-day RSI measure, which it has now hit in two consecutive quarters.

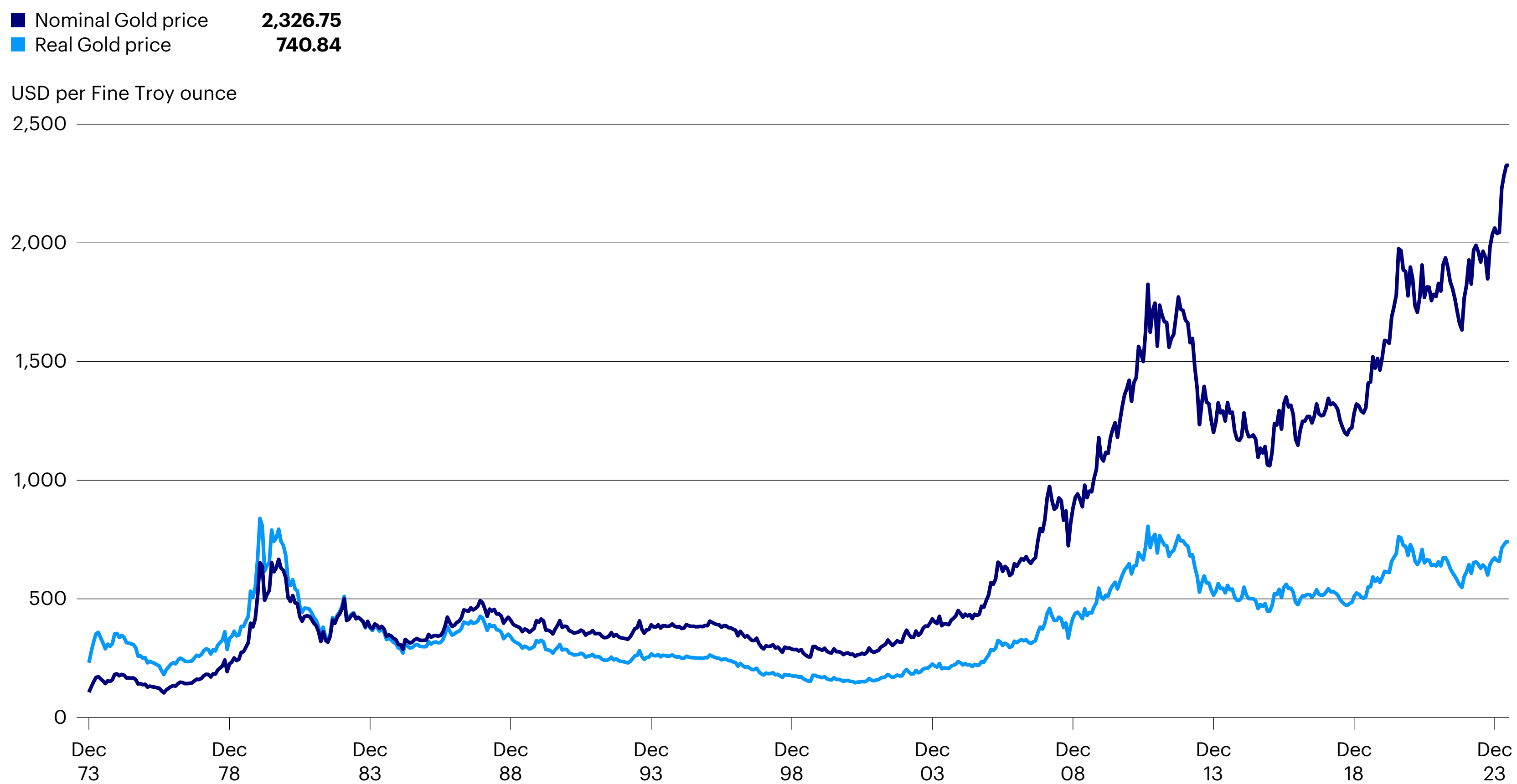




Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2024.

Gold price return, nominal and adjusted for inflation

Gold comfortably managed a positive real return in the quarter as US inflation continued to slow. Over the past 12 months, gold has returned 21.2% on a nominal basis; this converts to roughly 17.8% on a real basis over the same time horizon.

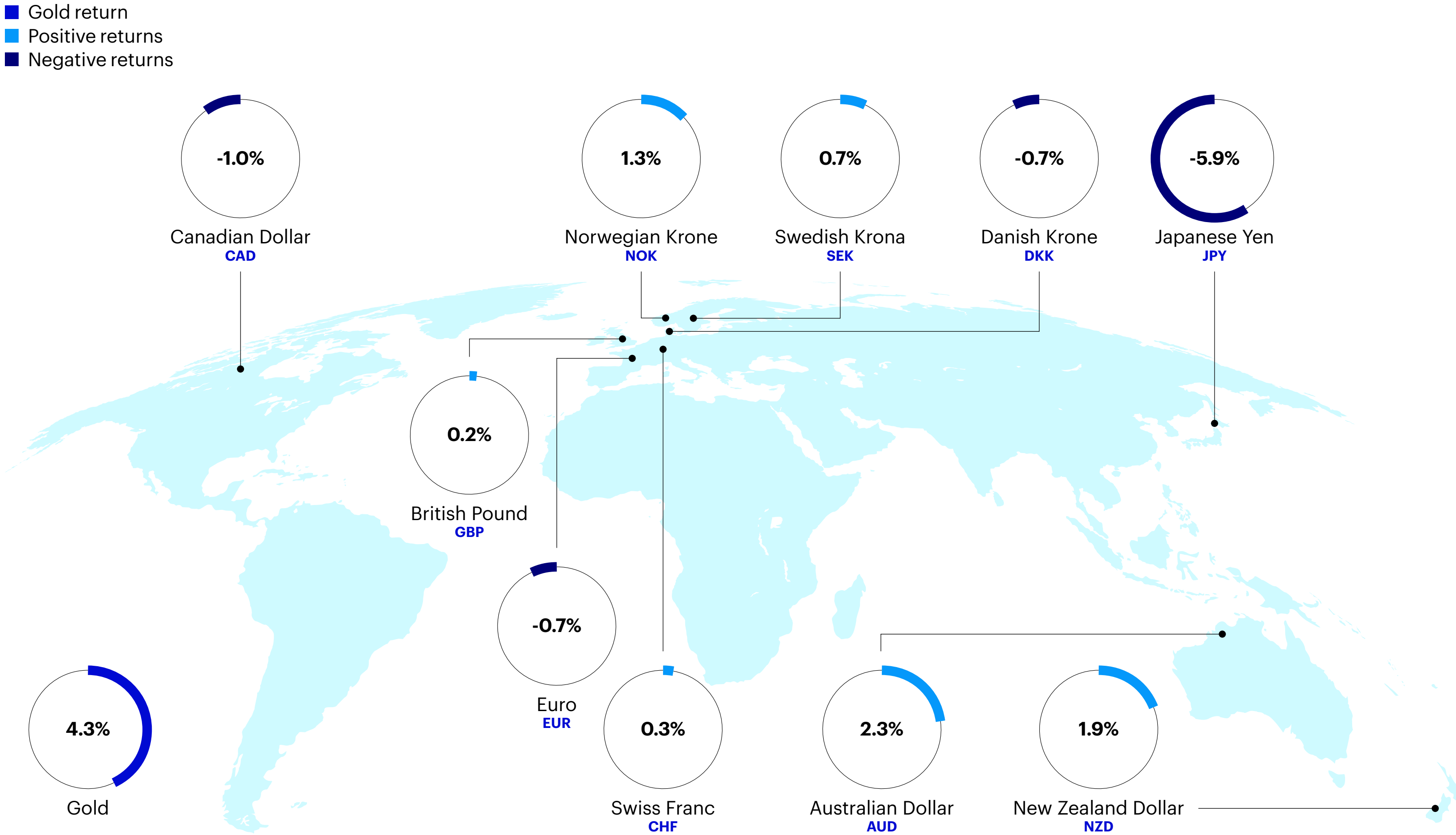


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2024.

G10 currencies

Gold comfortably outperformed all major currencies in Q2 2024. The AUD saw gains on the back of stronger inflation data increasing the likelihood of an increase in the Reserve Bank of Australia's policy rate. There is the possibility that Chinese weakness has been overestimated, which would also benefit Australia whose biggest trading partner is China. The ECB and Bank of England saw changes to their rate outlooks in line with the Fed, so respective currency moves were mooted. This was not the case with the Japanese Yen where the outlook for the interest rate differential against the US Dollar fell, causing Yen weakness; the Yen fell to a 38-year low against the US Dollar into quarter-end.

Q2 returns of gold and G10 currencies in USD (%)



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

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
Gold price and economic risks

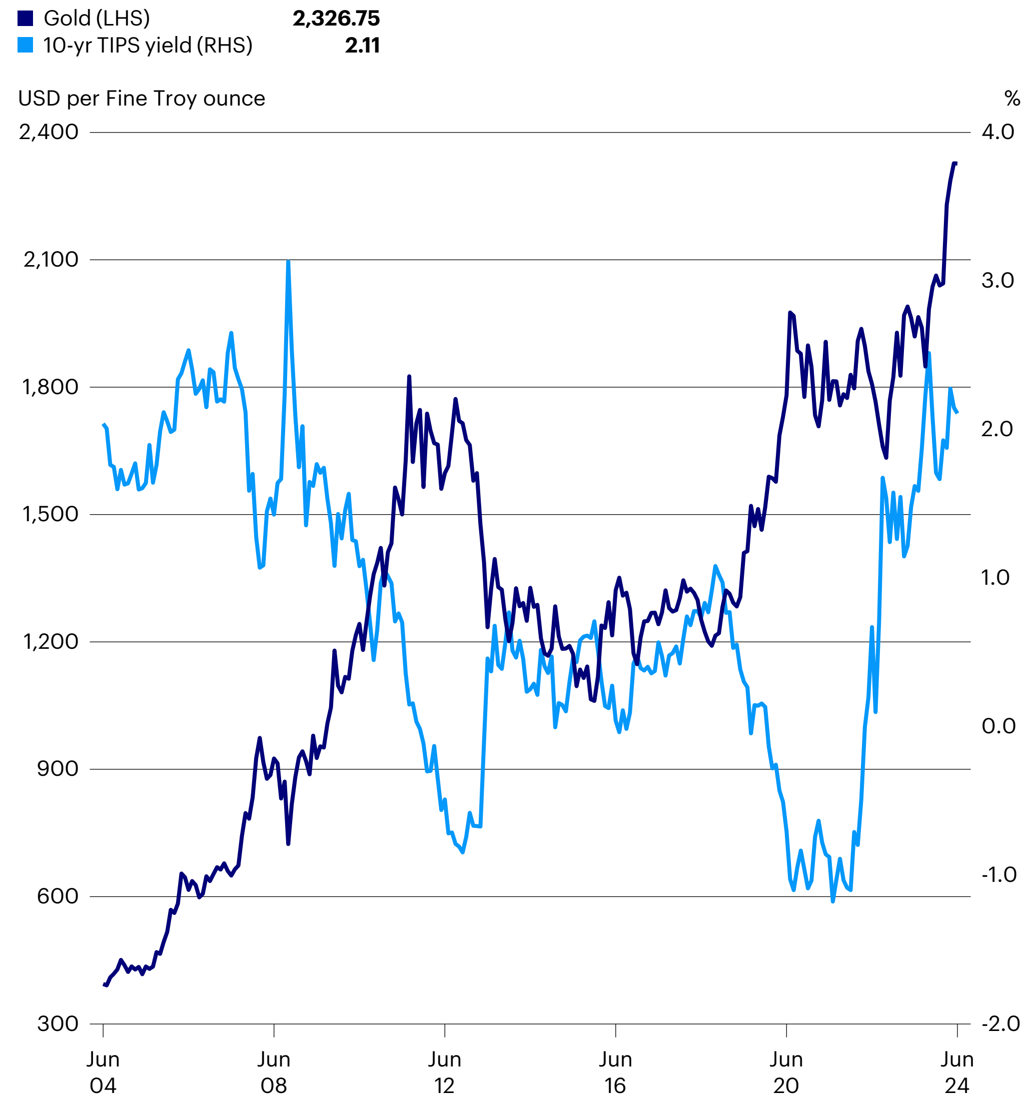
Gold price and real bond yields

The real yield as measured by the US 10-yr TIPS ended the quarter at 2.1% having started Q2 2024 at 1.9%. Real yields in the US had been falling from October 2023 before bottoming in January and then breaking above 2% again this quarter. Specifically, headline numbers coming through from the non-farm payrolls have not only been strong but have significantly beaten estimates and supported the consumer, lifting overall economic growth estimates for 2024.

Real bond yields edged higher to

2.1%

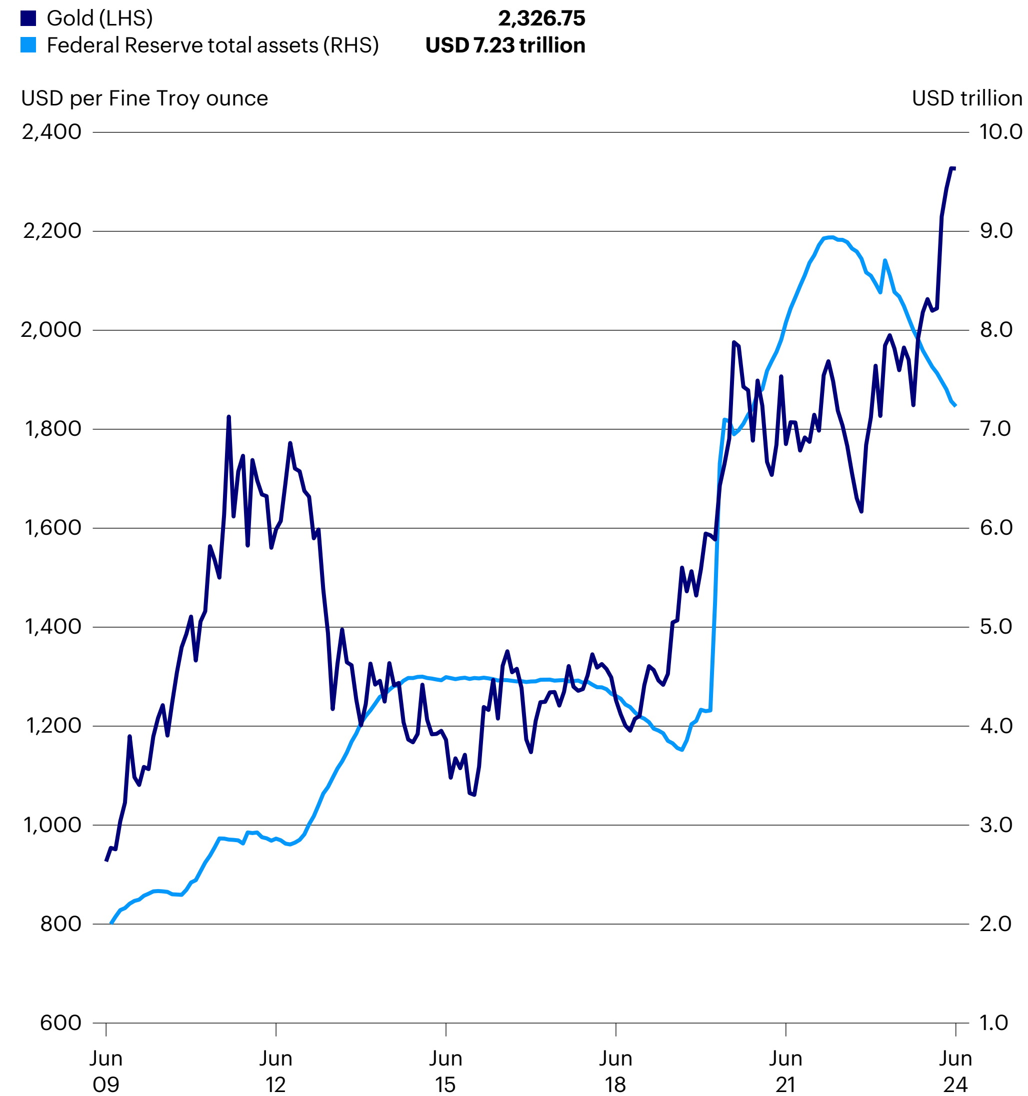
at end of Q2



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

Gold price and Fed balance sheet

The Fed's balance sheet now stands at a similar level to November 2020 as a further 3.3% of the Fed's holdings matured. The Fed has dialled back the pace of quantitative tightening (QT) since May in order to preclude the issues caused in the previous round of QT (2019), when it did cause market disruption. Although the Fed has not given a date of when it will end QT, Chair Powell has said they will stop with still an ample stock of reserves, though this has not been quantified.



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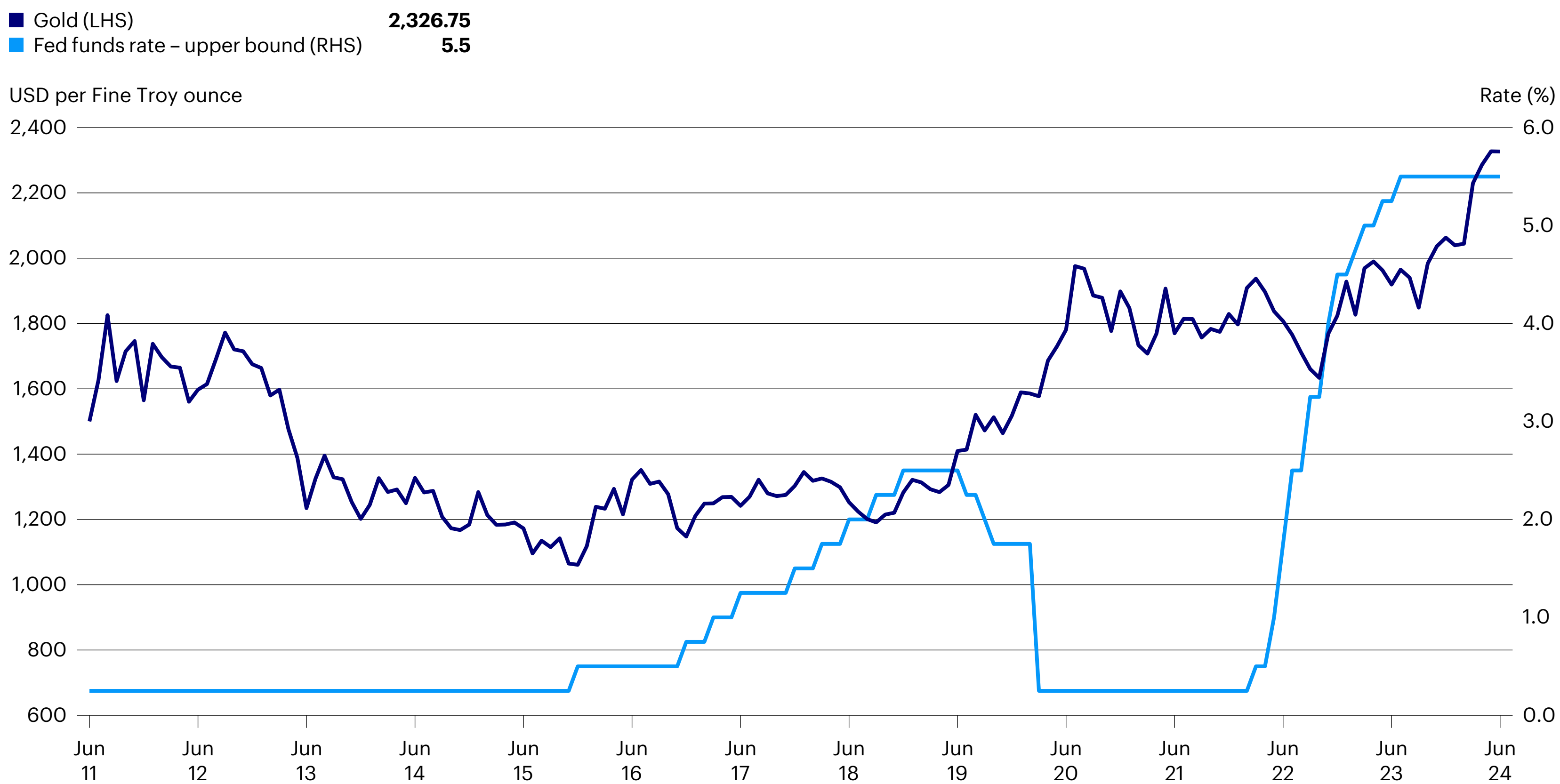
Market performance

Macro factors

Gold price and US interest rates

Through Q2 2024, the Fed funds rate upper bound was maintained at 5.5% as projections into year-end turned more hawkish. The Fed's dot plot published in June now has the Fed funds rate at 5.1% come year-end (in March their projection was 4.6%). Alongside this, market forecasts continued to have two rate cuts priced in for year-end, but the likelihood of when the first rate cut is to be made was pushed back to September from July.
It could be that when the Fed does cut rates, this could motivate ETF investors who have been notably absent from the recent rally in gold.

Number of expected Fed rate cuts
Two
by the end of 2024



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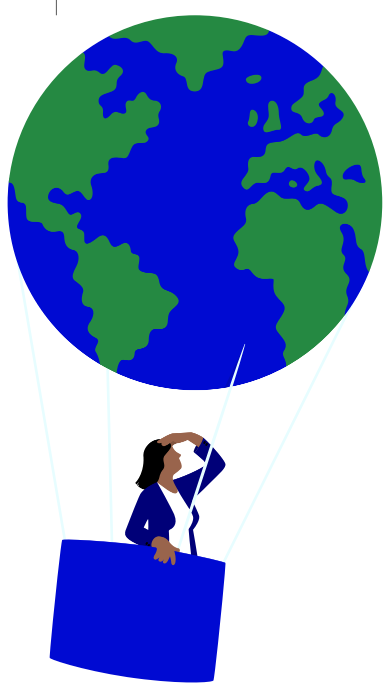
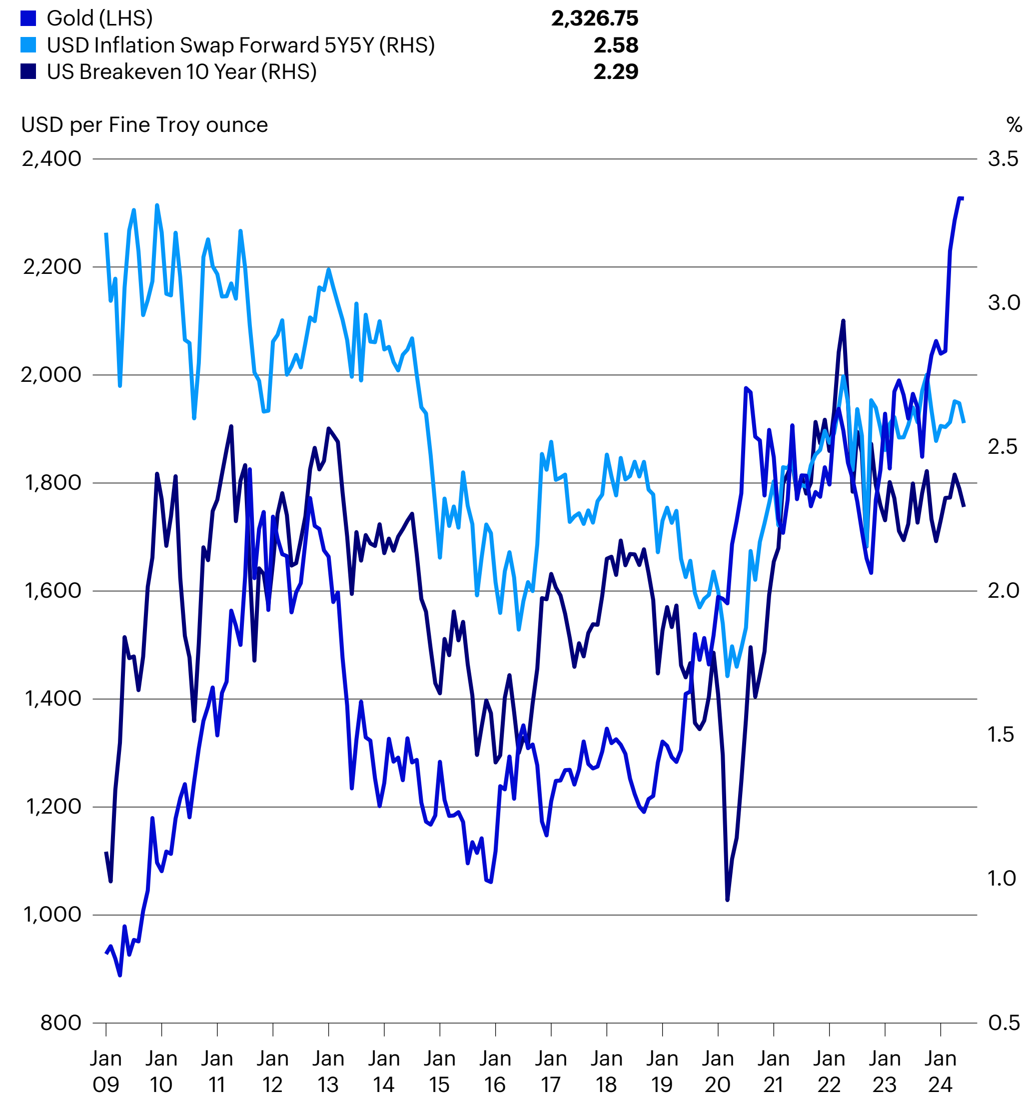
Gold price and inflation expectations

Using breakeven rates and inflation swaps, inflation expectations for the US receded in Q2 2024. The sentiment of lower inflation is helping the gold price, as it is feeding into expectations that the Fed is set to cut rates. This improves the opportunity cost of holding non-yielding gold. There is still some way to go for inflation expectations to fall into line with Fed targets, however, and this situation is set to further reconcile in the second half of the year.





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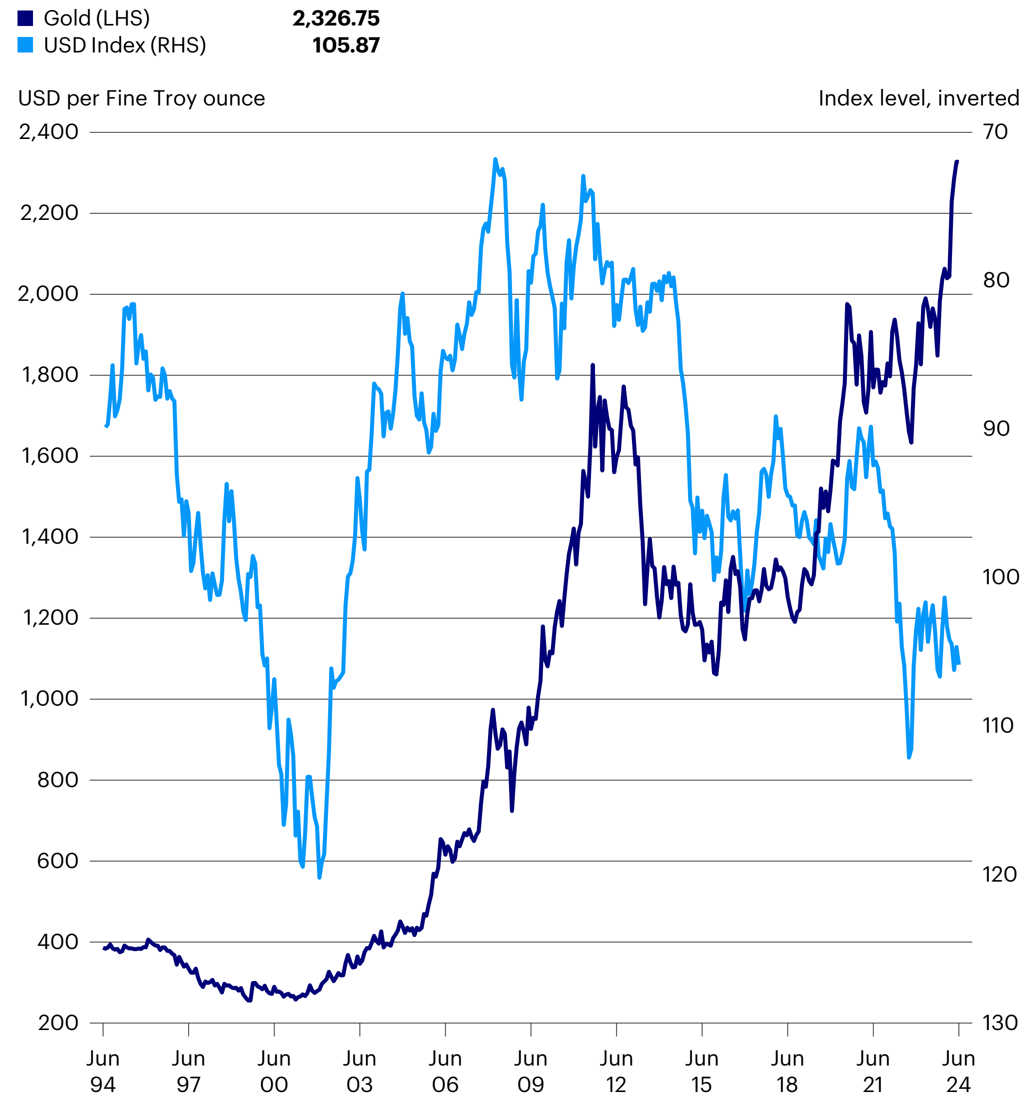
Gold price and the US Dollar

In Q2 2024, the USD rose 1.3% according to the DXY index. This was driven by the delay to market expectations of the Fed's first rate cut this cycle. The other two central banks that are key within the DXY index (the ECB and the Bank of England) are expected to have lower rates come year-end. As both these central banks also saw a drop in the expected number of rate cuts by the end of December, the USD was able to preserve its relative strength. Importantly, the view that the Bank of Japan (BoJ) would only see three further rate hikes this year reduced to two in the quarter. Anticipation that the BoJ would intervene to support the Yen as it reached a 38-year low against USD proved an anticlimax. This also helped the rise in USD albeit to a limited extent.

US Dollar Index

+1.3%

in Q2



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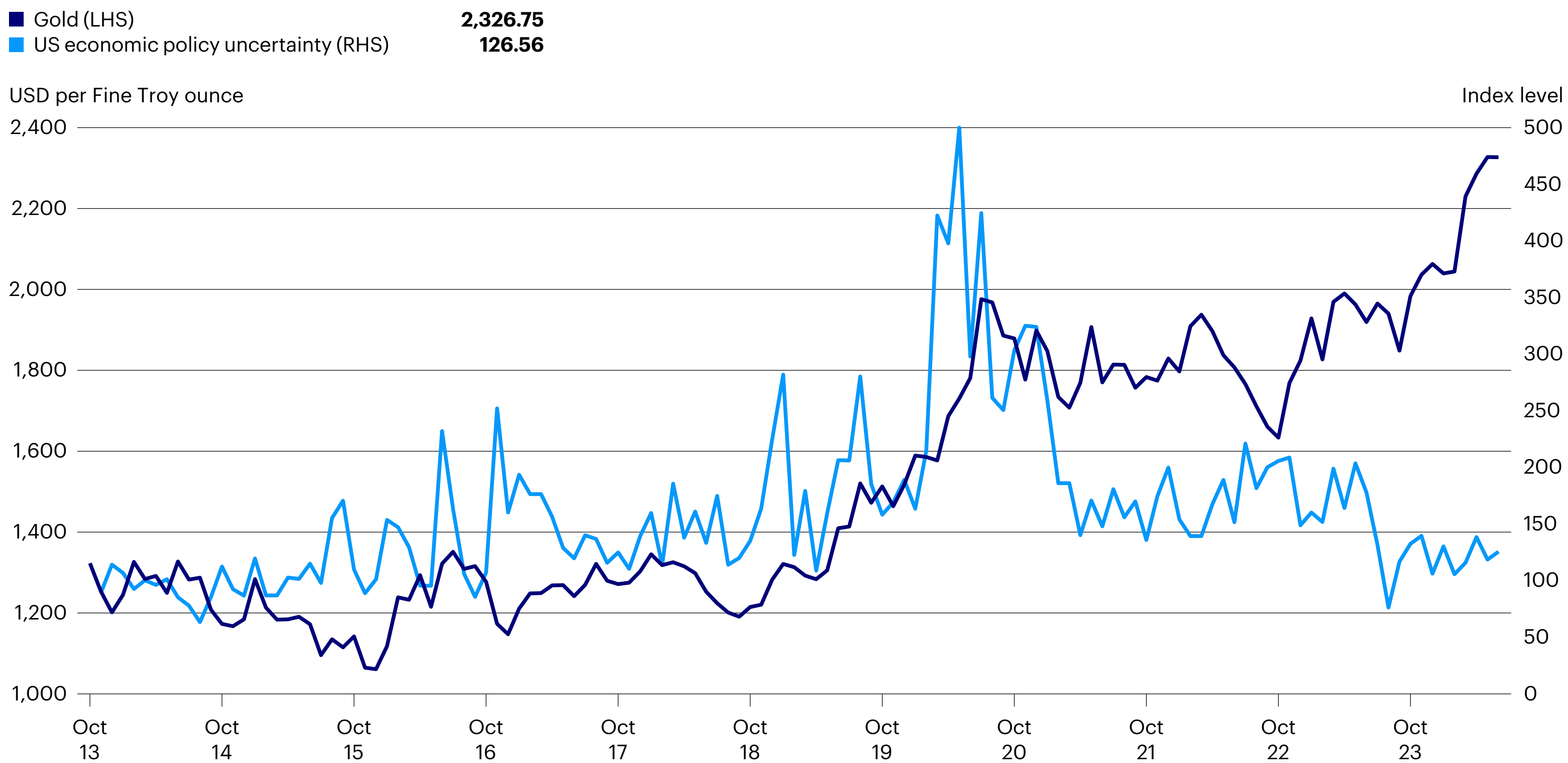
Gold price and economic risks

US economic policy uncertainty trended higher over the quarter although remained low in comparison to the recent past. As this index is measured by the count of the word 'uncertain' or 'uncertainty' with 'economy' and words related to the presidency, there may well be an uptick in the coming months, which has been a positive signal for gold in the past.



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Data as at 30 June 2024, unless otherwise stated.

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