Invesco

Market performance and macro factors

Gold report

Q1 2023

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 2023

Gold price return in Q1

+8.0%

Gold the best-performing asset other than cash over 12 months

+1.6%

Real bond yields

1.1% at end of Q1

US Dollar index fell in Q1

-1.0%

Data: Bloomberg, as at 31 March 2023.

Market performance

Pages 03 – 09

The gold price rose strongly for the second straight quarter, with its performance in Q1 the highest of the major asset classes. Over the past 12 months, gold's performance is second only to cash, despite weakness in the metal's price in Q2 and Q3 last year.

Macro factors

Pages 10 – 15

Several factors helped support gold price gains in Q1, including a general weakening in the US dollar, declining bond yields and the market's expectations of an earlier peak in Fed interest rates, not to mention concerns over a potential banking crisis.

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 added 8.0% in Q1 to end the quarter at $1,969. Speculation of when the Fed would hit its peak rate was the key driver for gold over the quarter. January's dramatic non-farm payrolls report coming out much higher than the market expected had caused the gold price to pull back, but events in the banking sector during March forced investors to reassess the outlook for the US economy and saw gold move above $2,000 intra-day.

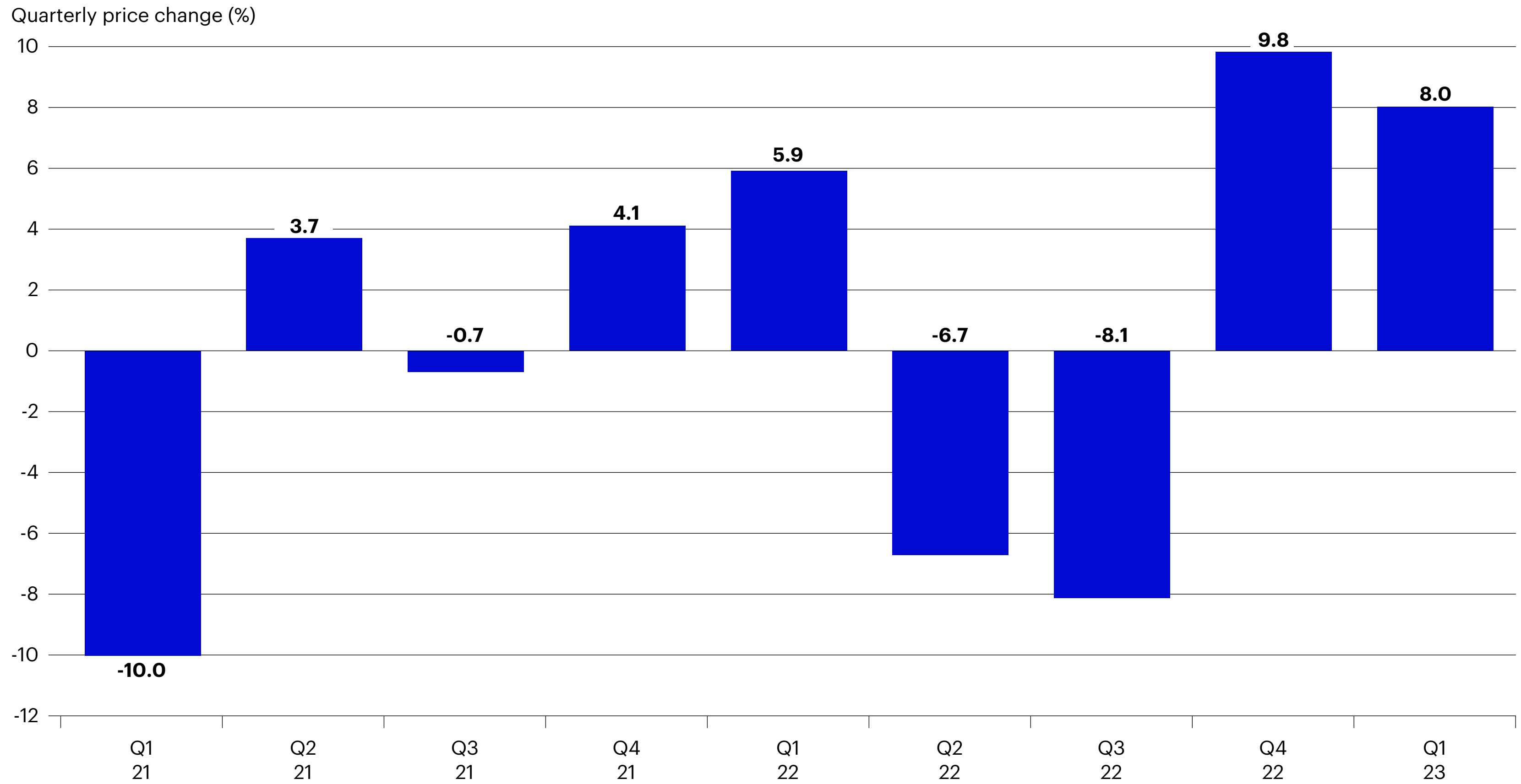
Gold price return in Q1

+8.0%

Past performance is not a reliable indicator of future returns. Bloomberg, in USD, from 31 December 2022 to 31 March 2023.

Quarterly price returns

The first quarter of 2023 continued the strong performance from the final quarter of 2022 as markets again concluded the period with the view that the Fed's dot plot was too aggressive; the Fed would need to ease back from its estimate for the Fed funds at year-end.



Past performance is not a reliable indicator of future returns. Bloomberg, in USD, as at 31 March 2023.

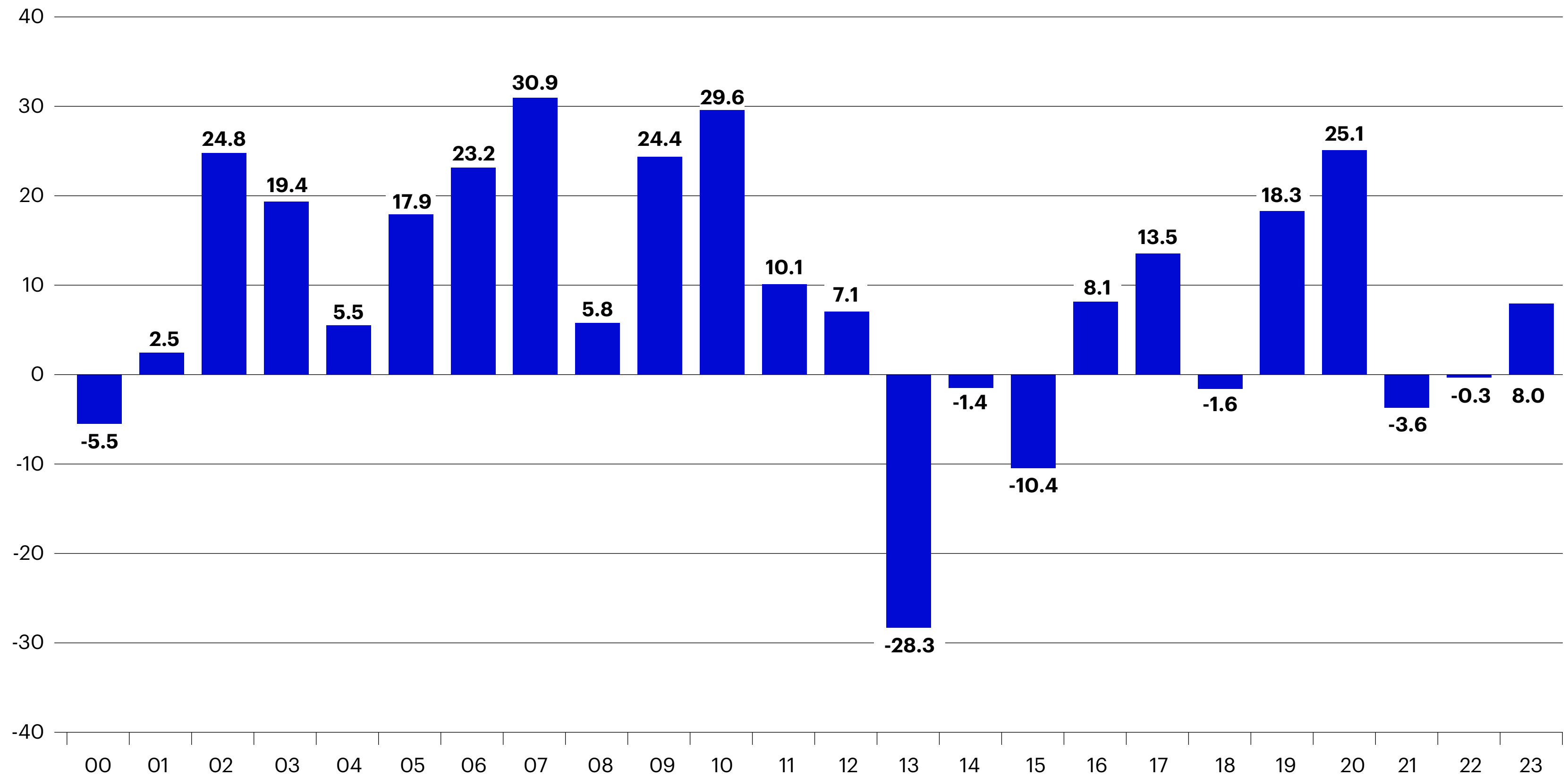
Market performance

Macro factors

Annual price returns

Albeit the quarter's return was slightly behind the end of 2022, this was the strongest start to a year for gold since Q1 2017 when the metal returned 8.9%. Q1 2023 also compares favourably with Q1 last year when gold returned 5.9% in part because of the invasion of Ukraine and a period where the intra-day measures also show the metal pushed above the $2,000 level.

Annual price returns (%)



Past performance is not a reliable indicator of future returns. Bloomberg, in USD. 2023 YTD to 31 March 2023.

Asset class returns

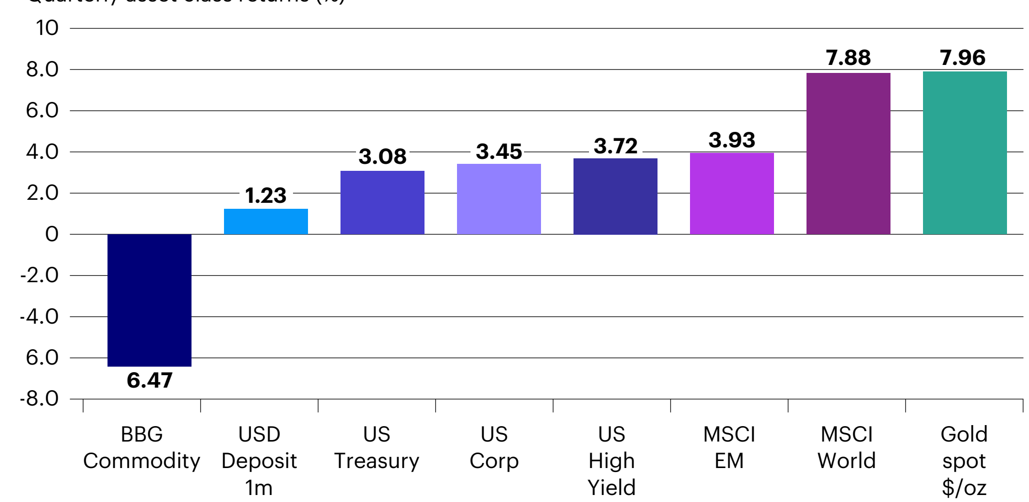
Changing expectations for the Fed funds path was a positive for gold but similarly for equities, which returned 7.9% in Q1 2023. Lower interest rate expectations were more favourable for growth stocks over value but the negative impact on the US dollar was also a positive for emerging market equities. An improving inflation outlook was positive for fixed income. The commodity complex was the only asset class to deliver negative returns in the quarter.

The past 12 months have been awkward for financial markets with most asset classes delivering negative performance. Commodities in aggregate have fallen 15.2% over the past year as monetary authorities have been in tightening mode and the initial shock from the invasion of Ukraine fades. Sharp interest rate hikes in response to central banks being behind the curve on inflation have been problematic for both equities and fixed income.

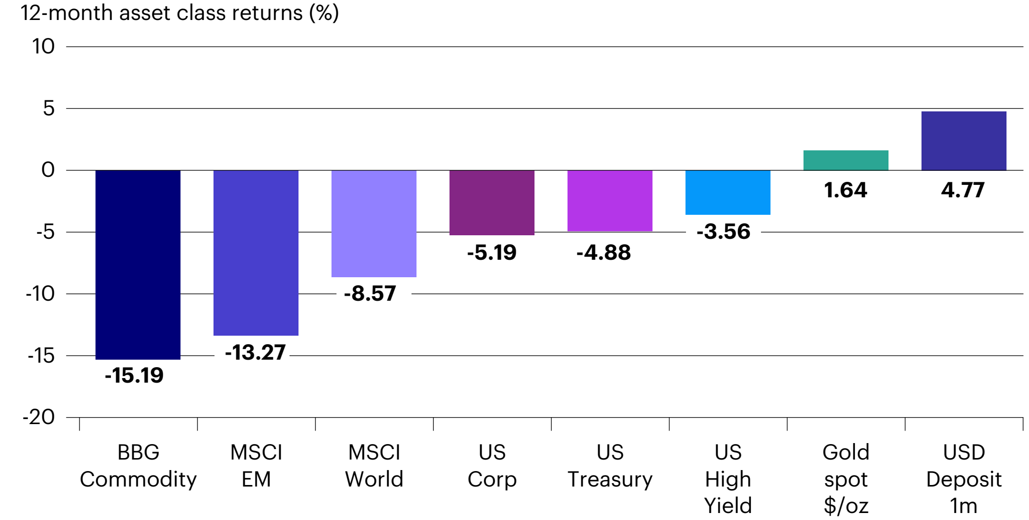
Gold the best-performing asset other than cash over 12 months

+1.6%

Quarterly asset class returns (%)



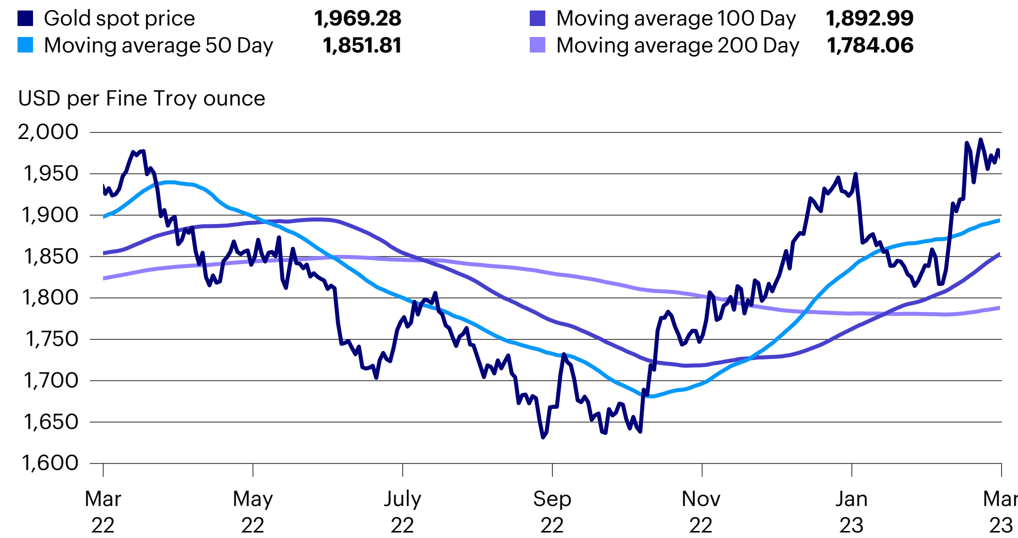
12-month asset class returns (%)

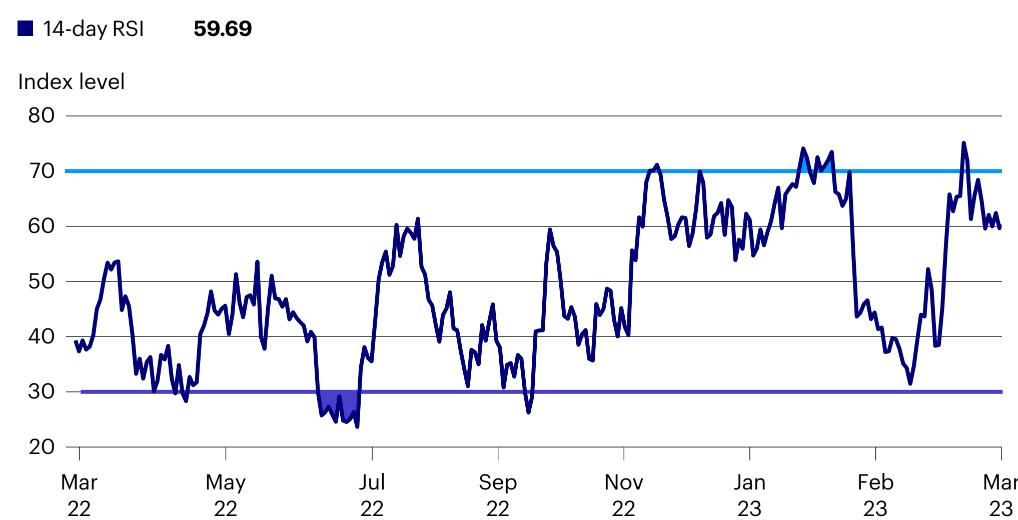


Past performance is not a reliable indicator of future returns. Bloomberg, in USD, as at 31 March 2023.

Relative strength of the gold price

Moves in the gold price triggered some technical signals over the course of the quarter. Looking at the moving averages, that the longer 100-day crossed the 200-day measure was a support for the gold price. The rapid ascent in the gold price caused a succession of overbought signals according to the 14-day RSI measure: initially on the weaker inflation data published in January and again in March following the sale of Credit Suisse to UBS.





Past performance is not a reliable indicator of future returns. Bloomberg, in USD, as at 31 March 2023.

Gold price return, nominal and adjusted for inflation

Gold's inflation-adjusted return for the quarter was 6.5% despite inflation showing signs of being stickier than anticipated. On a nominal 12-month basis, gold has returned 1.6% but adjusting for inflation, which has increased in the region of 4.5% over the same period, gold's inflation-adjusted return is -2.9% since the end of March 2022.

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

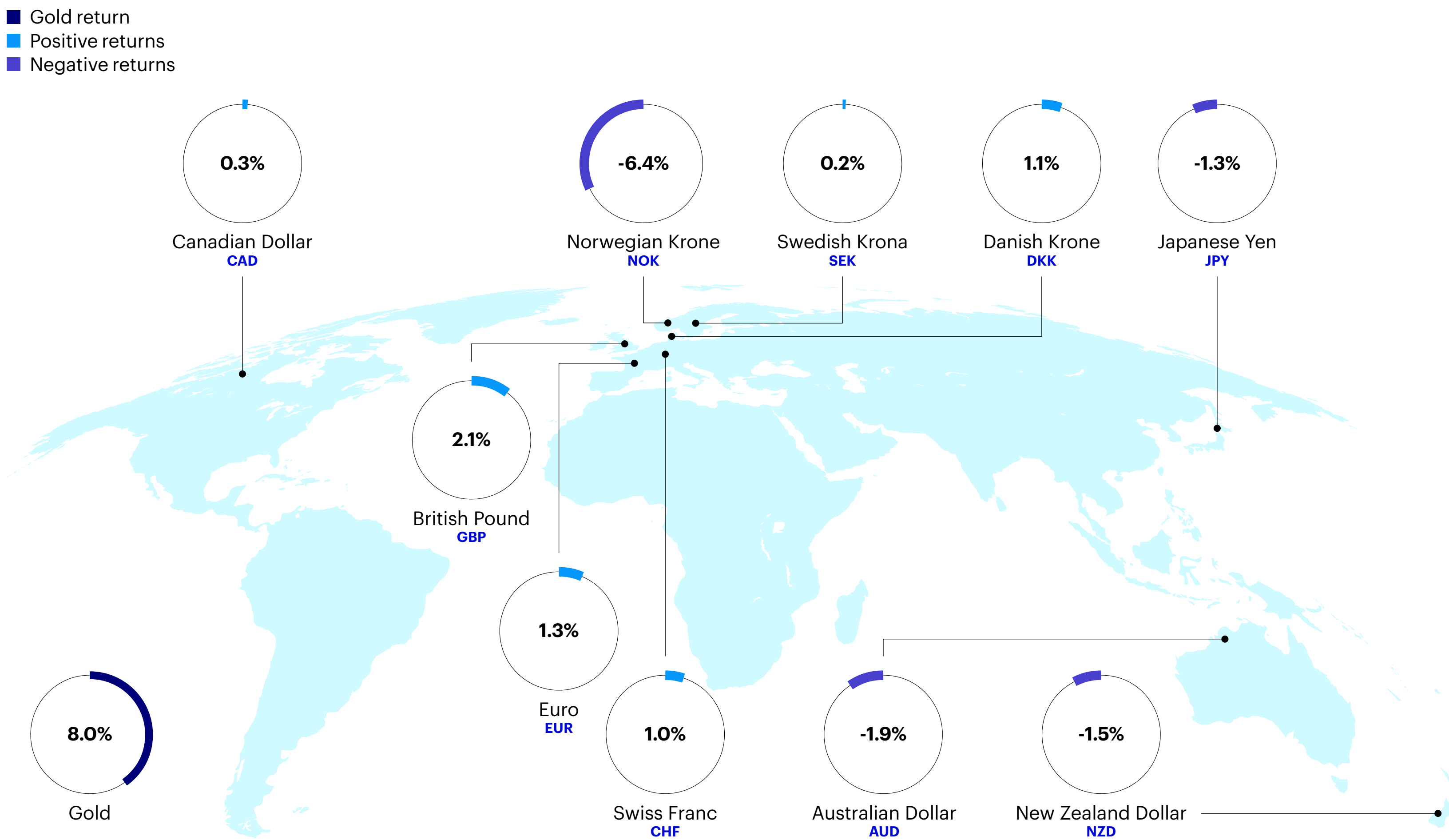
Market performance

Macro factors

G10 currencies

Gold significantly outperformed all major currencies during the quarter as the traditional perceived safe havens of the Swiss Franc and Japanese Yen out- and under-performed the USD respectively. This signalled investor concerns were in the wider financial system. Sterling and the Euro gained from a relative improvement in their interest-rate differentials relative to that of the USD. Sterling had a particularly strong quarter as the growth outlook for the UK has been steadily improving from a weak starting point.

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 March 2023.

Market performance

Macro factors

Gold price and real bond yields

The real yield continued to be volatile through the quarter, ultimately ending at 1.1% having peaked at 1.7% ahead of the Silicon Valley Bank (SVB) collapse and troughing at 1.0%. Yields came in on concerns of a global banking crisis as fears separately grew in Europe and this could cause rates to be cut faster than previously anticipated. This was underscored by a more even tone struck by the Fed at its March meeting as current economic data continues to paint a mixed picture as the outlook weakens.

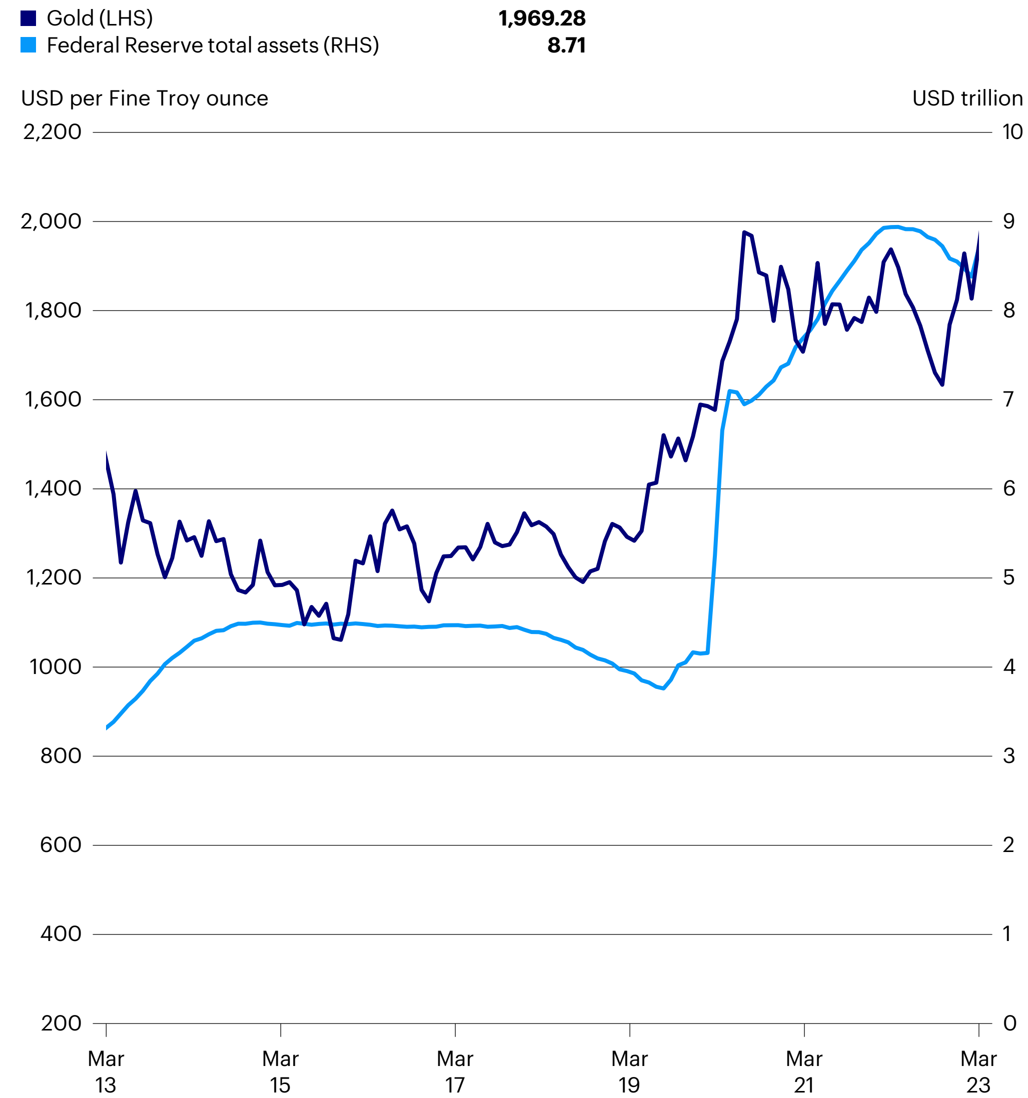
Real bond yields

1.1% at end of Q1

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

Gold price and Fed balance sheet

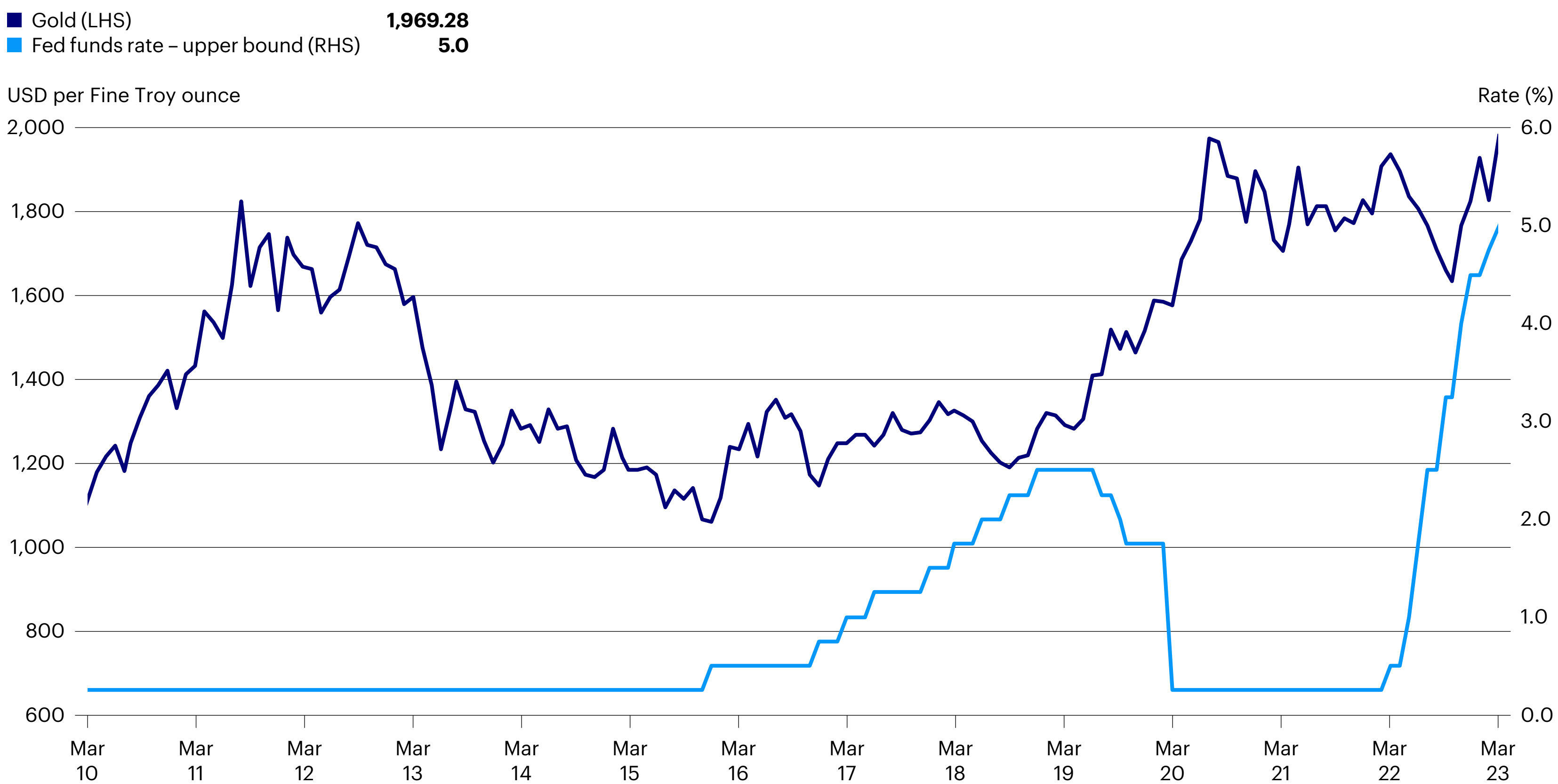
The US authorities' reaction to the collapse of SVB included an emergency funding line, which caused an increase in the Fed's balance sheet in March. From the end of 2022 to the end of February 2023, the Fed's balance sheet fell 2.0% as the quantitative tightening programme continued. In March, the balance sheet expanded 3.9% taking it back to October 2022 levels. That the balance sheet was increased to provide confidence in the financial system was a particular benefit to gold.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

Gold price and US interest rates

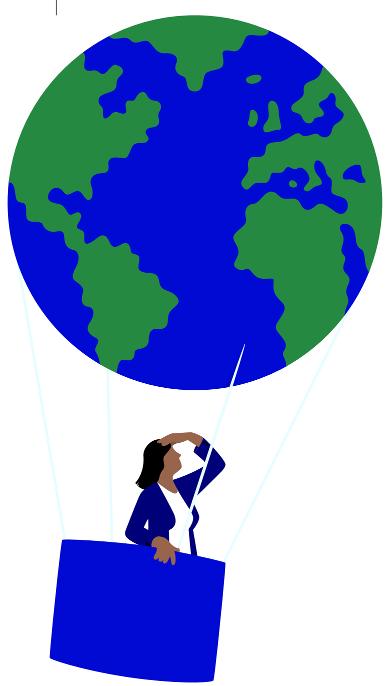
Although the Fed's policy rate was increased 50 basis points (bps) over the quarter (25bps at the February meeting and another 25bps at the March meeting), gold was again able to make gains as investors looked further out to speculate when the central bank would hit its peak rate. The quarter opened with a peak rate of 5.25% expected in June but by the end of the quarter the market had brought that forward to May. This does pass over that, ahead of the SVB collapse, intra-quarter markets had priced rate hikes out to September with the peak rate reaching 5.7% before falling slightly into year-end. The rapid repricing of a lower rate schedule caused the US dollar to weaken and, consequently, the gold price to rise.

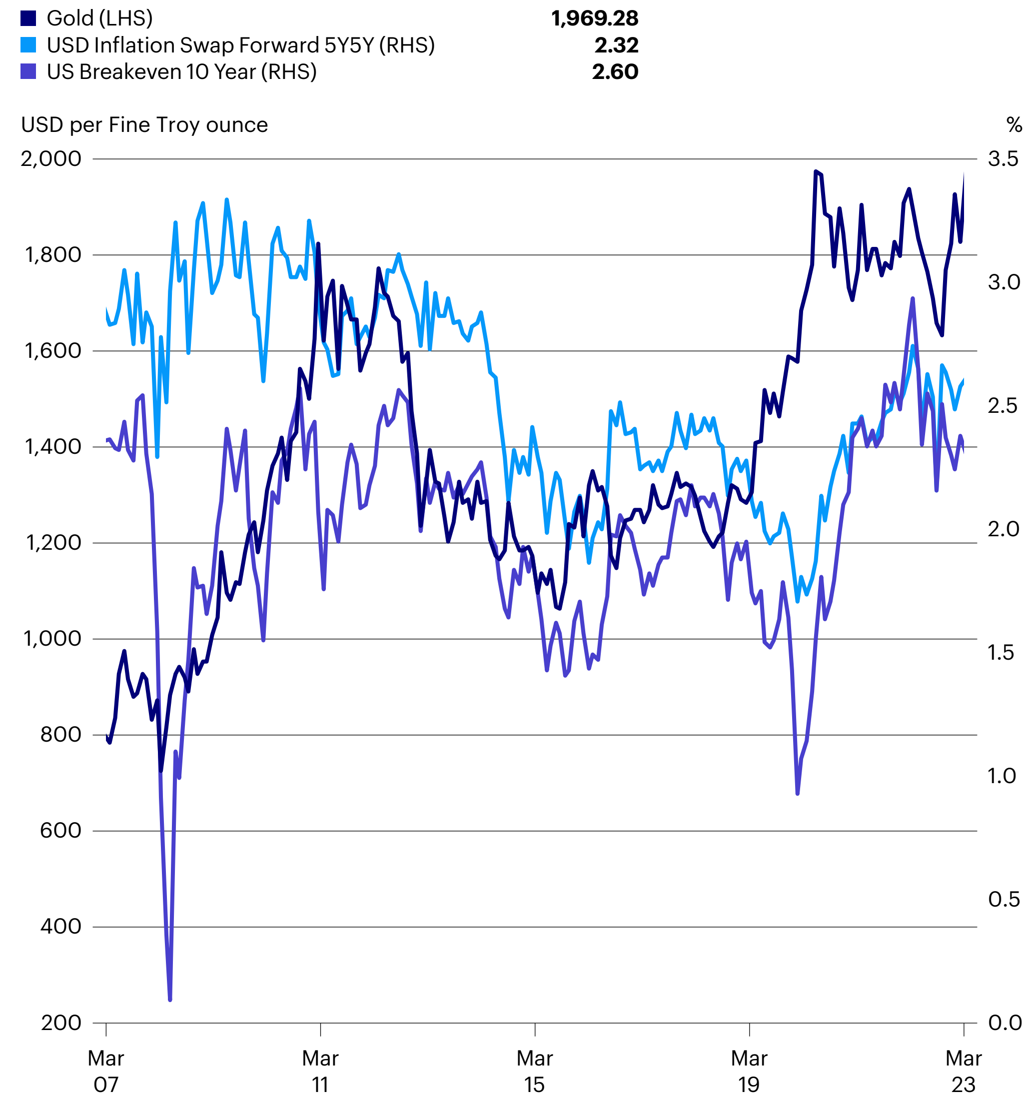


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023

Gold price and inflation expectations

Inflation expectations ended Q1 higher than the previous quarter having bounced higher as the Fed became more hawkish in February and core cyclical inflation is yet to fall as the US labour market remains tight. The US 10yr breakeven ended the quarter at 2.3% as the US 5y5y inflation swap was 2.6%, both indicating that inflation is expected to persist above the 2% average target for some time to come.





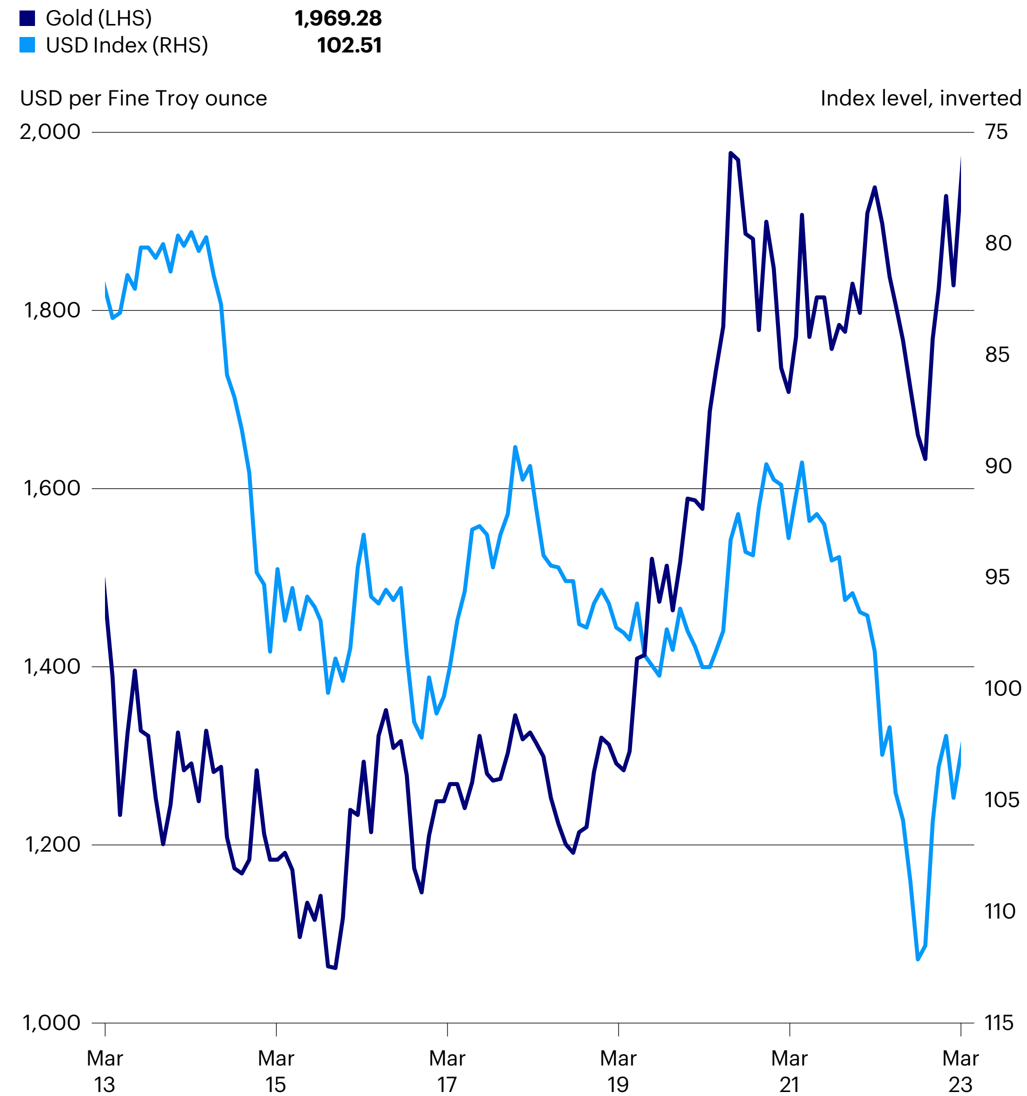
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

Gold price and the US Dollar

The USD index fell another 1.0% in the quarter following the rotation of expectations for the Fed funds rate. Dollar moves were the key driver for gold strength over the quarter as the traditional relationship of weaker dollar, stronger gold price asserted itself. Despite market moves, the latest dot plot (March) continues to show the FOMC forecasting the Fed funds rate at 5.125% at year-end whereas the market sees it closer to 4%. Should the FOMC prove correct, USD strength would be expected and, therefore, the gold price to fall.

US Dollar index fell in Q1

-1.0%



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

Market performance

Macro factors

Gold price and economic risks

Although authorities came out to put the general public at ease with the troubles in the banking sector, the response in the economic policy uncertainty index was relatively muted. There has been a general increase in uncertainty since the Fed began its current hiking cycle in March of last year, but gold prices have remained relatively high since the peak of the pandemic in 2020 even though the levels of economic policy uncertainty have fallen away.

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 March 2023.

Contributors

Emma McHugh
Strategist, Market Insights
emma.mchugh@invesco.com

David Scales
Senior ETF Investment Editor
david.scales@invesco.com

Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important Information

This marketing communication is exclusively for use by Professional Clients and Financial Advisers in Continental Europe as defined below, Qualified Clients/Sophisticated Investors in Israel and Professional Clients in Dubai, Ireland, Isle of Man, Jersey, Guernsey and the UK. It is not intended for and should not be distributed to, or relied upon, by the public.

Data as at 31 March 2023, unless otherwise stated.

By accepting this document, you consent to communicating with us in English, unless you inform us otherwise.

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals, they are subject to change without notice and are not to be construed as investment advice.

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

For the distribution of this communication, Continental Europe is defined as Austria, Belgium, Croatia, Czech Republic, Finland, France, Germany, Hungary, Italy, Luxembourg, The Netherlands, Norway, Romania, Spain, Sweden and Switzerland.

In Israel, this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

Any calculations and charts set out herein are indicative only, make certain assumptions and no guarantee is given that future performance or results will reflect the information herein.

Issued by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg; Invesco Asset Management, (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland; Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority; Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.

EMEA283790/2023

Invesco