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Market performance and macro factors

Gold report

Q4 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 Q4 2023

Gold price return in Q4	Gold performance in 2023
+11.6%	+13.1%

Real bond yields	US Dollar Index
1.7% at end of Q4	-4.6% in Q4

Data: Bloomberg, as at 31 December 2023.

Market performance

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The gold price rose 11.6% in Q4, reaching an all-time high on 3 December before ending the year at $2,063. The impetus for the increase came initially from geopolitics in the aftermath of the attack on Israel, but later – and more sustainably – from expectations that the Fed will cut interest rates possibly as early as March 2024.

Macro factors

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The macro environment was supportive for gold, with the US Dollar and real bond yields both falling and the market pricing in aggressive policy easing by the Fed. Inflation continued to soften in the quarter, and attention now turns to US economic growth.

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 increased 11.6% in the final quarter of 2023 to end the year at $2,063. Although the metal's price did increase at the start of the quarter on geopolitical risks, it was ultimately monetary policy factors that drove the metal to a new all-time high of $2,135 on 3 December. This position unwound as it was too aggressive, but gold momentum picked up again as the Fed signalled the end of this rate hiking cycle.

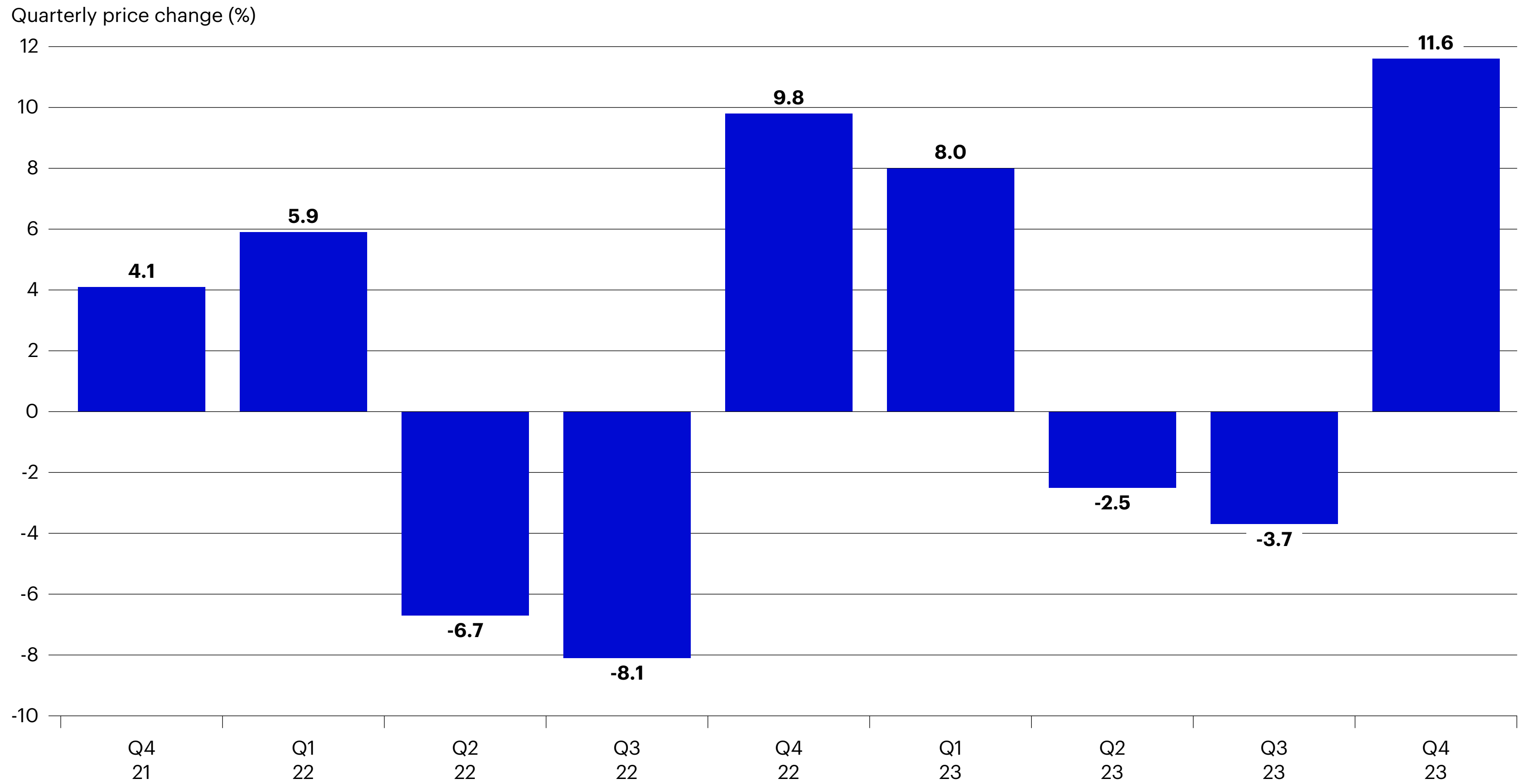
Gold price return in Q4

+11.6%

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, from 30 September to 31 December 2023.

Quarterly price returns

Gold delivered 11.6% in Q4 2023, its best calendar quarter of returns since Q2 2020 when the world was in the initial stages of the COVID-19 pandemic and the gold price appreciated 12.9%. Fourth-quarter gold returns are seasonal due to the pressures of Diwali, Christmas and Lunar New Year. Despite the higher average cost in Q4 2023 versus Q4 2022 ($1,977 versus $1,730), physical gold demand remained strong, and gold outperformed its Q4 2022 return of 9.8%.



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

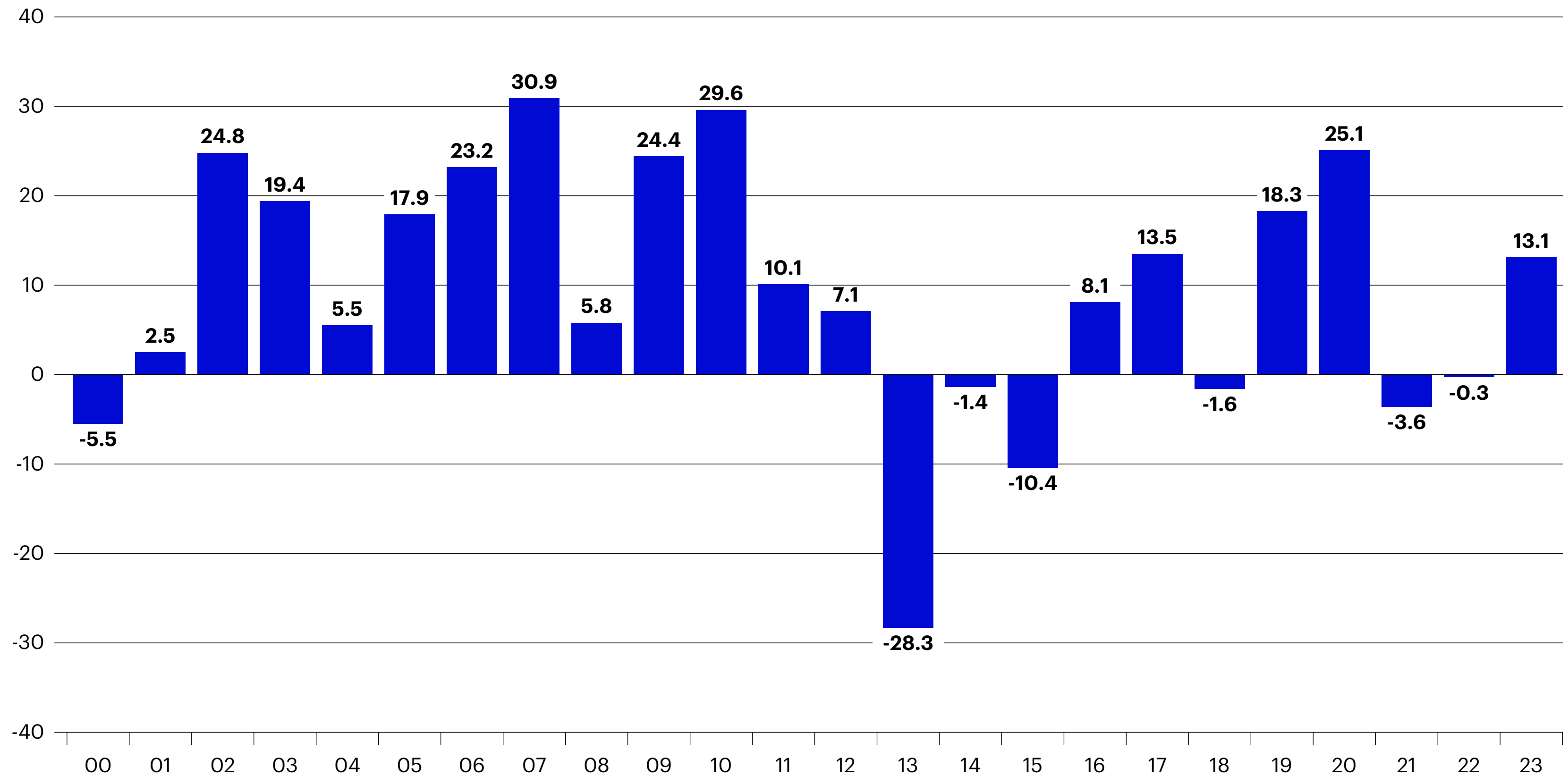
Annual price returns

Gold also had its first calendar year price appreciation since 2020. Gold returned 13.1% in 2023 following two years of negative performance after the 25.1% generated in 2020. Most of gold's performance in 2023 was generated in the final quarter as, in common with 2020, gold benefited from its safe-haven sobriquet as well as the prospect of (as opposed to actual) monetary easing.

Gold performance in 2023

+13.1%

Annual price returns (%)



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

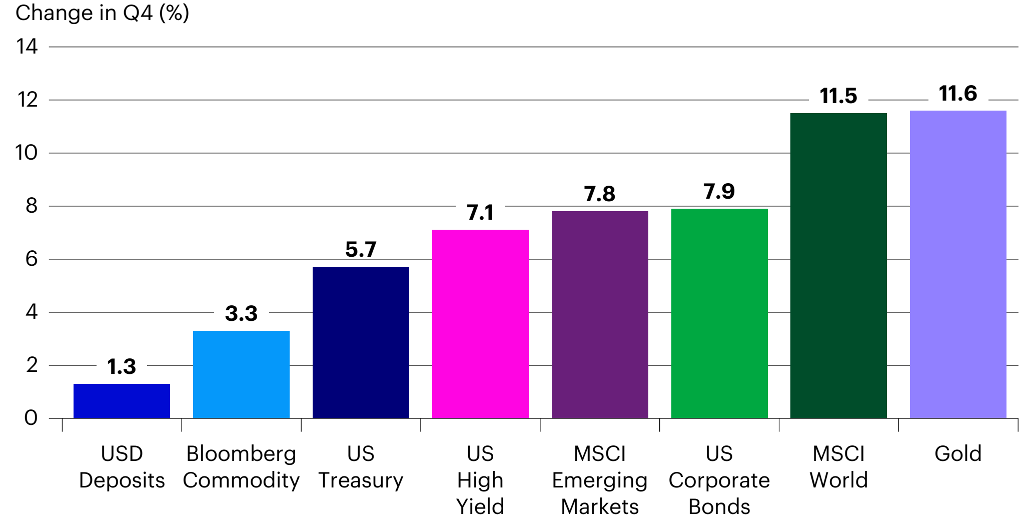
Market performance

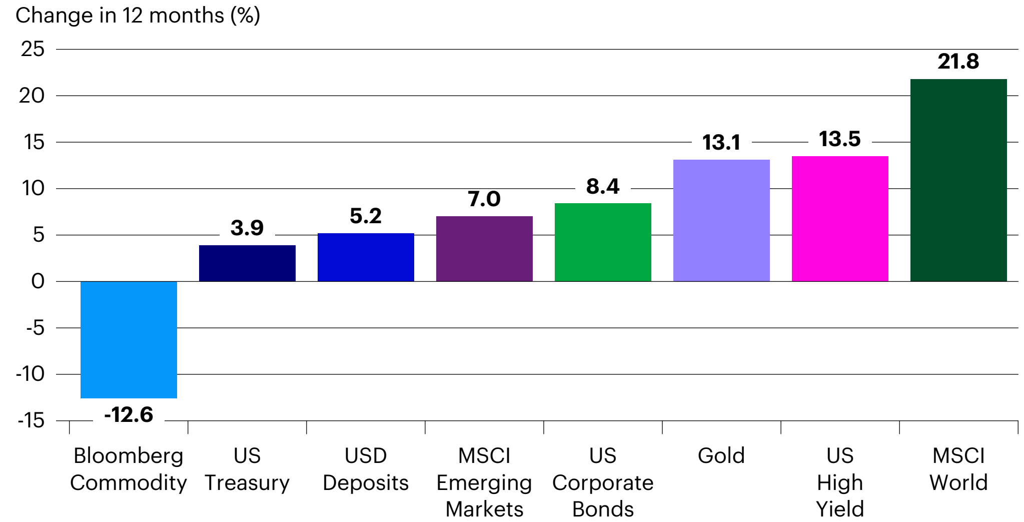
Macro factors

Asset class returns

All major asset classes delivered positive returns in Q4 2023, but gold was the top performer. Developed market equities outperformed and gave double-digit returns in the quarter on growing expectations for central banks (specifically the Fed) to cut policy rates. The lower opportunity cost of holding non-yielding gold improved the metal's outlook in an anticipated falling-rate environment. As progress on inflation continues and central banks are pivoting, the macro backdrop is turning to provide an opportune entry point for fixed income assets.

Reviewing 2023, the year also generated a notably positive performance across the asset class matrix although commodities performance slid chiefly on weaker energy prices. Gold was outperformed by developed market equities as Japan turned in a strong performance primarily on corporate governance changes and US equities in particular were beneficiaries for the dissemination of AI technology, which was a key theme for the year. The mantra of higher-for-longer was a drag for fixed income assets although the expected defaults in the credit markets failed to materialise.

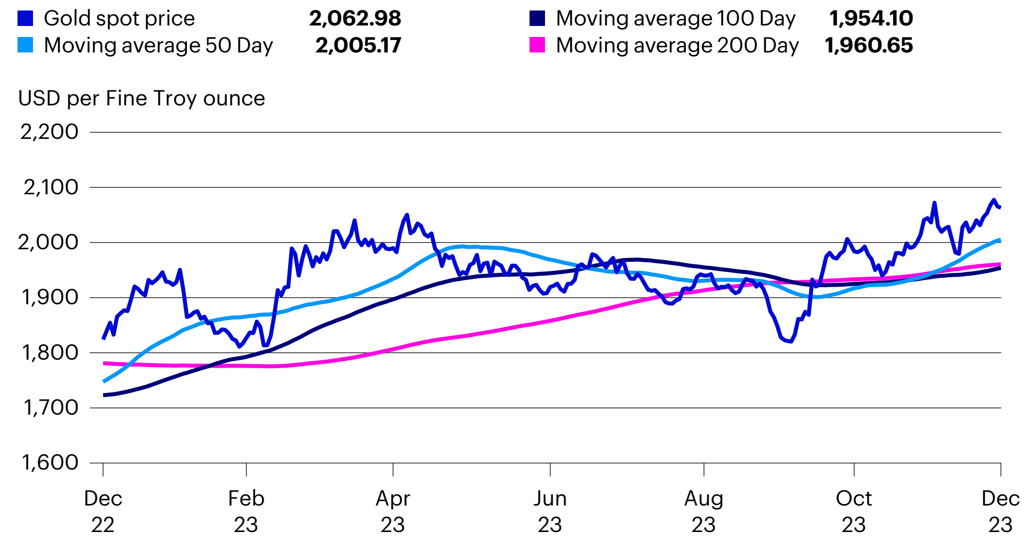


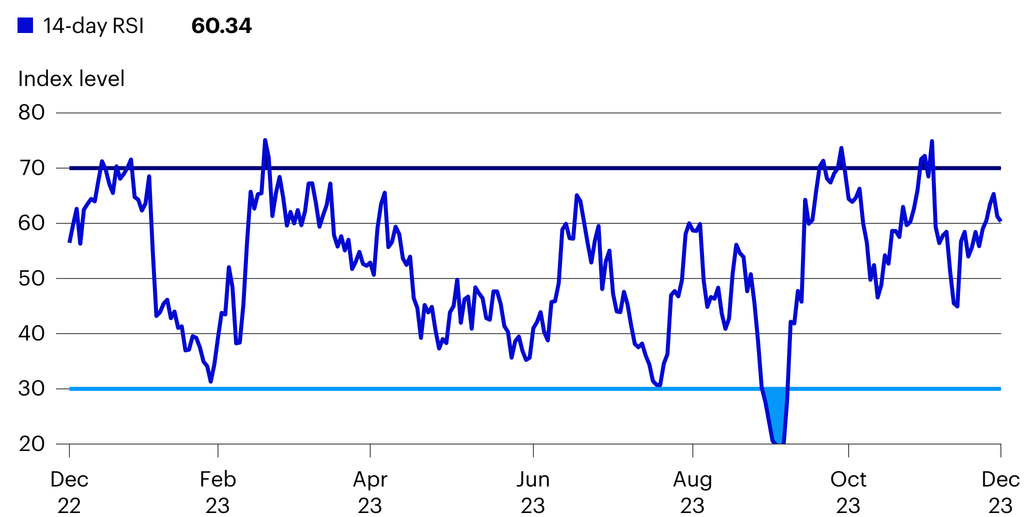


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 31 December 2023.

Relative strength of the gold price

The speed of the appreciation in the gold price over the course of the quarter meant that an overbought signal was triggered on four separate occasions, two ahead of the golden cross made into the end of November (A "golden cross" is a technical indicator occurring when the short-term moving average moves up to cross the long-term moving average, which analysts often interpret as a bullish signal). As the position that caused gold to break its record price unwound, the gold price fell back but the general positive momentum is reflected in the 50-day moving average.



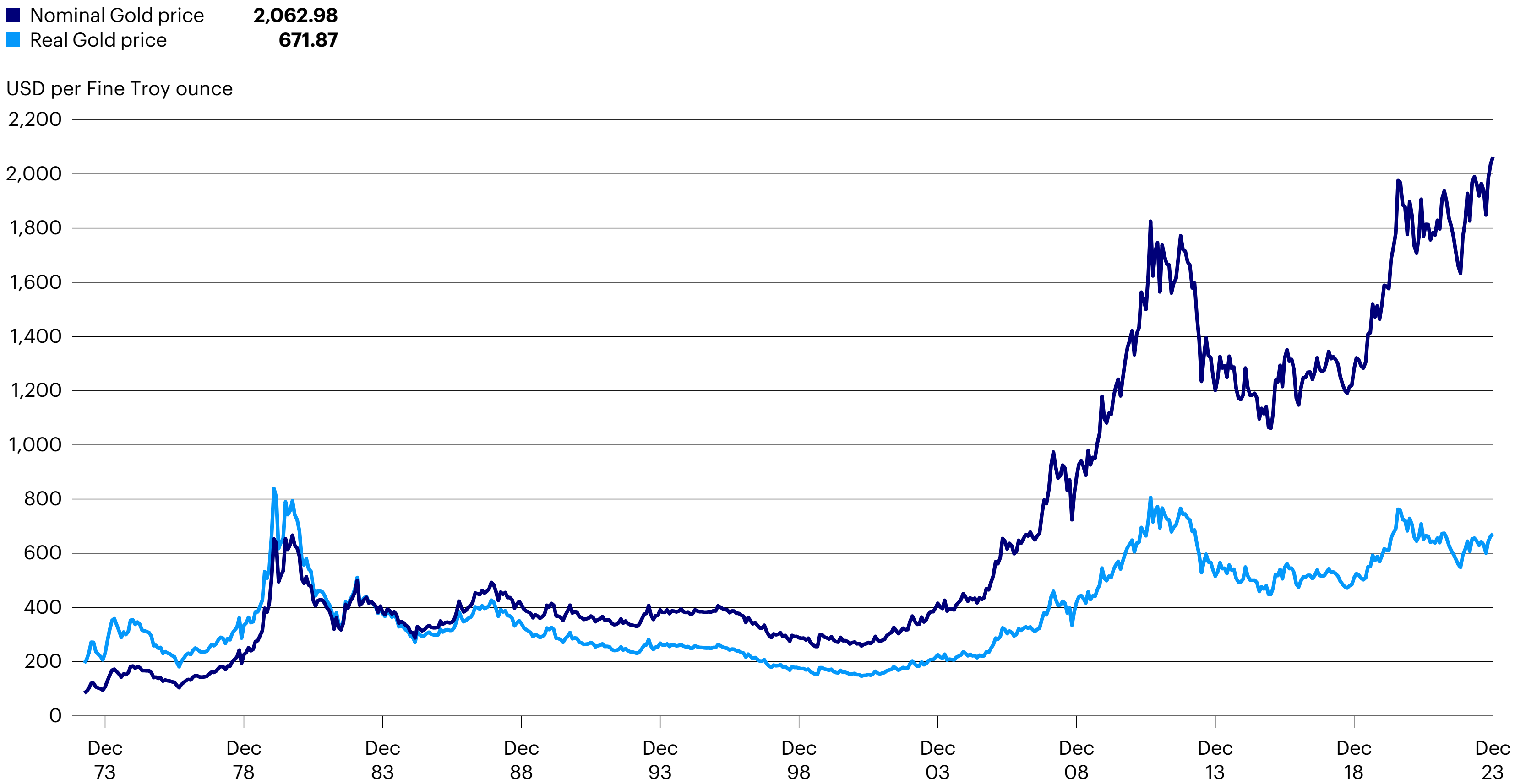


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2023.

Gold price return, nominal and adjusted for inflation

Continued progress on inflation has improved gold's performance in real terms in Q4 2023 if the inflation data from November 2023 is carried over into December.[1] In real terms, gold delivered 11.9% as US CPI fell in the quarter. Inflation was still higher on an annual basis; therefore, in real terms gold returned 9.3% in 2023.

[1] December 2023 inflation data is not available at the time of publishing, it is proxied for using November 2023 data.



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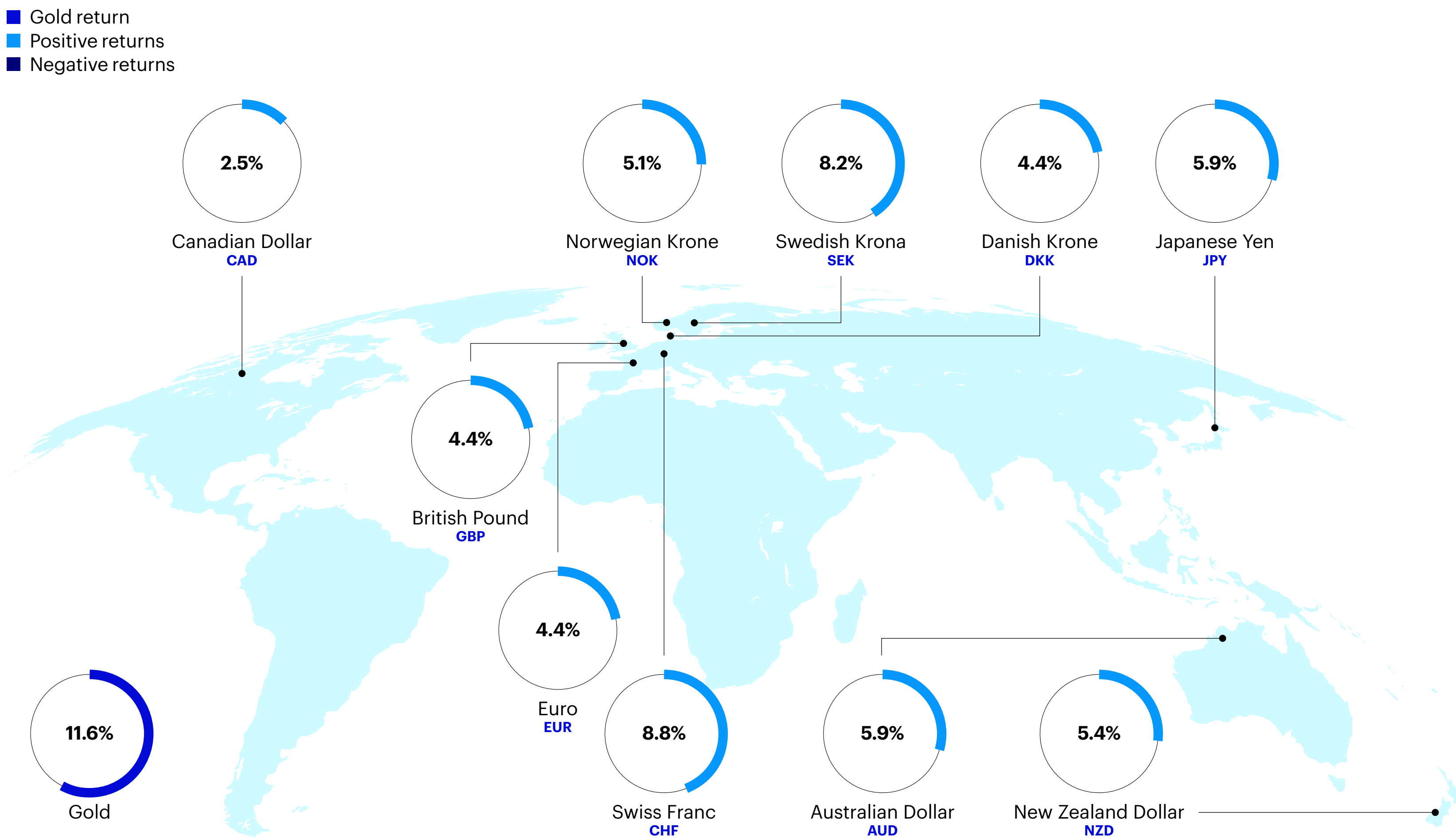
Market performance

Macro factors

G10 currencies

Markets became increasingly convinced that the Fed would be the first major central bank to cut its rate this cycle and with that there was dollar weakness against all major currencies in Q4 2023. Although the safe-haven currencies of the Swiss franc and Japanese Yen were among the stronger performers, this was for idiosyncratic reasons; the franc saw particular strength into quarter-end in thin trading as there was intense speculation the Bank of Japan would begin tightening. The economic backdrop has been particularly weak in Sweden through the course of 2023, but a hawkish central bank means it is not likely to see a rate cut until H2 2024.

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 2023.

Gold price and real bond yields

US real yields, as measured by the US 10-year TIPS, ended the quarter at 1.7%. This was following a near-term peak in real yields reached in October as US economic data had been much stronger than expected. Despite the spike in real yields, the gold price continued to rise as other factors came to the fore in the face of heightened Middle East tensions. As real yields fell back on speculation of the outlook for the US economy, the traditional relationship of lower real yields and gold price appreciation reasserted itself into the end of the quarter.

Real bond yields

1.7%

at end of Q4

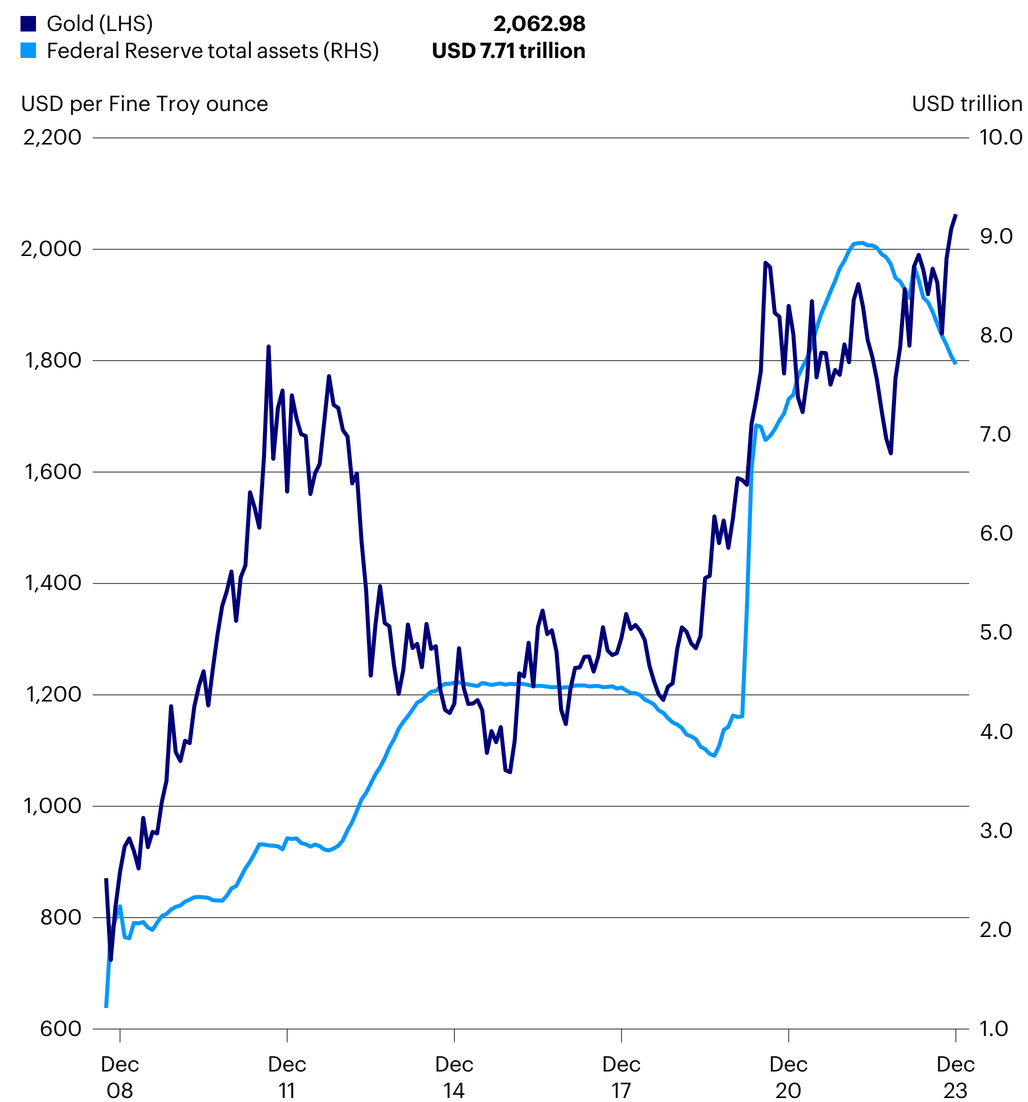
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 31 December 2023.

Market performance

Macro factors

Gold price and Fed balance sheet

The Fed's balance sheet contracted by 3.6% in Q4 2023, falling to $7.7 trillion, its lowest level since March 2021. The Fed's balance sheet is still almost twice the size it was at the start of the pandemic (46.8% larger). The removal of liquidity by the Fed since June 2022 has so far been without incident, although there was some volatility at quarter-end in the repo market as increased Treasury issuance crossed with the Fed run-off caused funding pressures.



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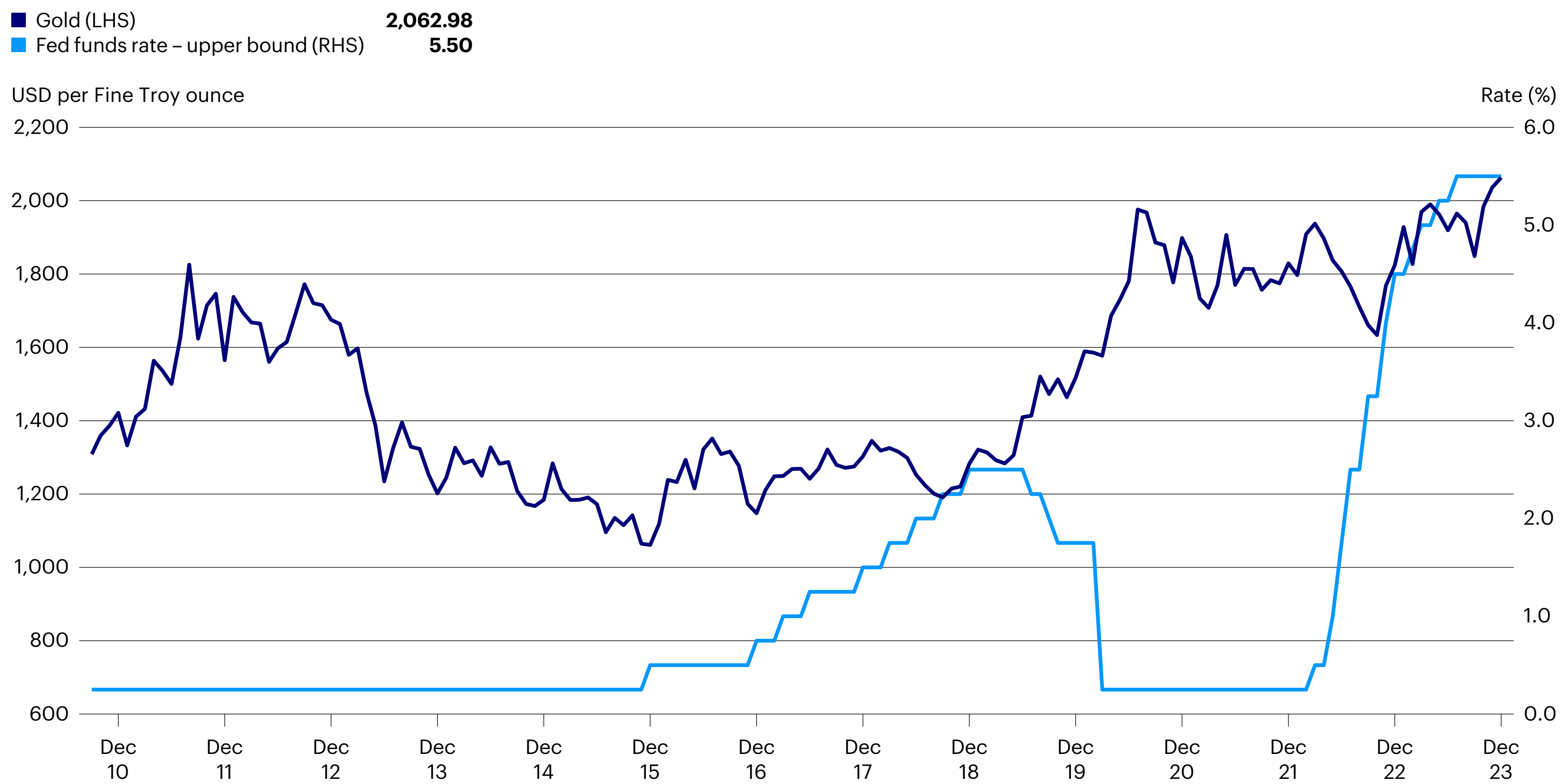
Market performance

Macro factors

Gold price and US interest rates

Although the Fed maintained the Fed Funds rate through the quarter at 5.5%, positioning that the Fed was to embark on an aggressive easing path caused the gold price to hit a new high. Although that position was quickly unwound, the Fed pivot announced at its December meeting continued gold's upward trajectory. The question going into the new year for gold (as witnessed at the start of December) is the pace at which the Fed will cut rates. The latest dot plot has the Fed anticipating rate cuts accumulating to 0.875% through 2024 whereas the market is currently pricing 1.5%. The path in 2024 is more likely to be influenced by the strength of the US economy than inflation as per the recent past.



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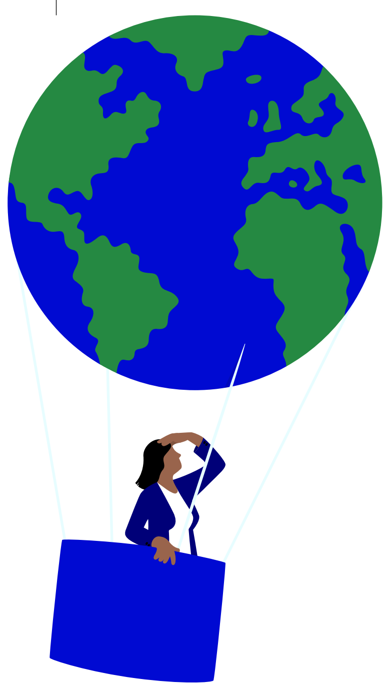
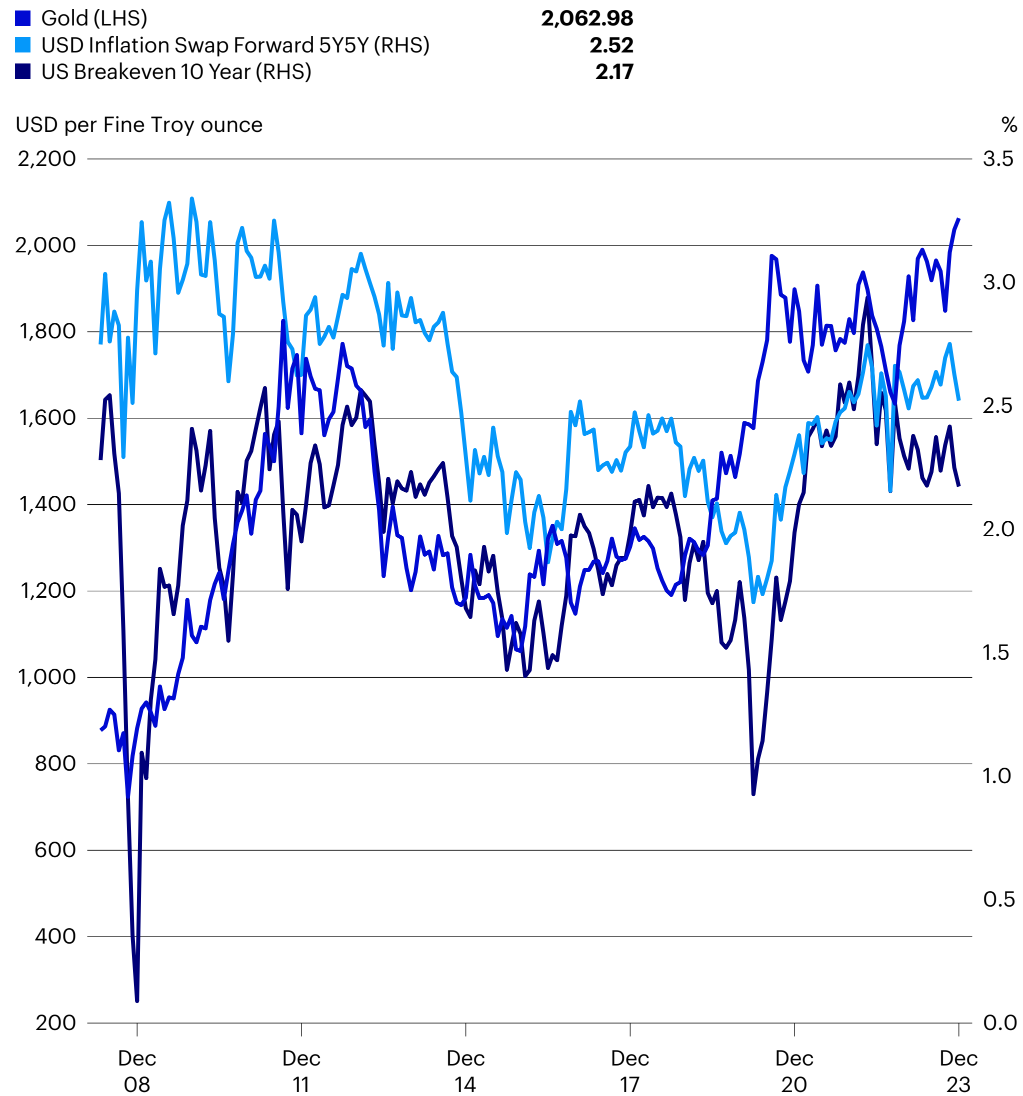
Market performance

Macro factors

Gold price and inflation expectations

Market measures of inflation expectations fell on the quarter: the 10yr breakeven ended the quarter at 2.2% from 2.3% and the 5y5y inflation swap at 2.5% from 2.6%. These expectations are still higher than what the Fed is trying to achieve in actual inflation data, which remains elevated but is falling faster than Fed projections. Slower economic growth is also likely to add further downward pressure on inflation (which has a high correlation to inflation expectations), however, Fed projections are forecasting inflation to remain above 2% through 2024.





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Market performance

Macro factors

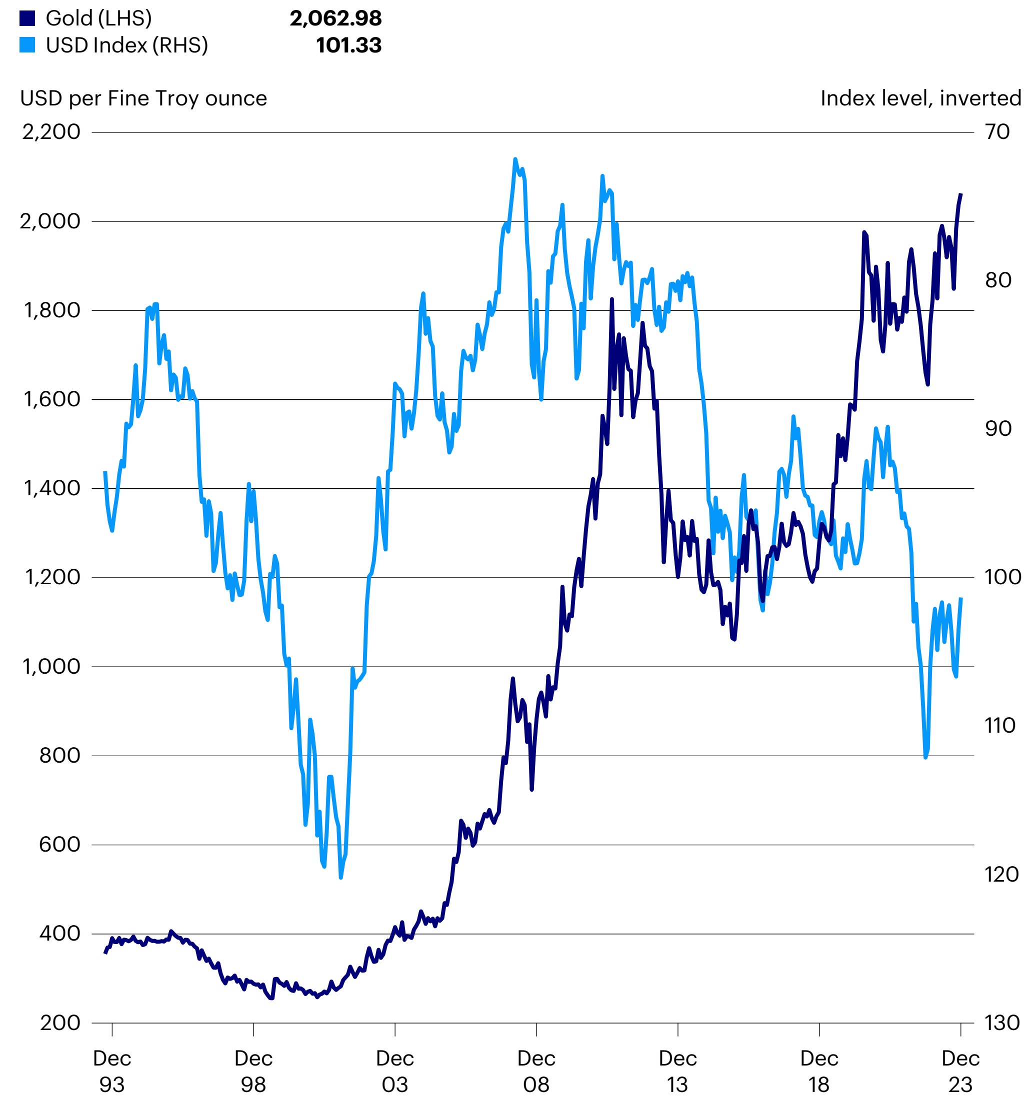
Gold price and the US Dollar

Over the quarter, the USD lost 4.6% as measured by the DXY index. The dollar has weakened on expectations that the Fed will be the first of the major developed central banks to cut its policy rate. This is despite the US having a relatively stronger economic outlook than its peers in 2024. Should the Fed prove correct in its projection of the path of the Fed funds rate this year, then the USD may regain some strength as market pricing on interest rates is relatively dovish.

US Dollar Index

-4.6%

in Q4



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

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Data as at 31 December 2023, unless otherwise stated.

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