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# Gold as a hedge

28 March 2024, 5:42 pm CET, written by UBS Editorial Team

**The Chief Investment Office likes gold as a hedge and for its diversification potential, even though the recent surge in the metal's price has taken it close to CIO's year-end target.**

Over the last six months, the price of gold rose almost 20% from the recent low to new record highs of around USD 2,180/oz. This is just 3.2% off our end-year target of USD 2,250/oz, which does limit the attractiveness of gold as a standalone investment.

The rise in the price of gold has been fueled by optimism that the Federal Reserve will start cutting rates at its June policy meeting, as well as real demand. Looking ahead, we believe price support for gold will follow central bank buying (including from China) and ETF buying.

With equity markets near all-time highs and geopolitical tensions still salient, **we believe gold could provide a good portfolio hedge against both cyclical and geopolitical risks.** We recommend that balanced USD-based portfolios allocate 5% to gold as a hedge.

- **Geopolitical tensions could intensify and widen.** The risk of a widening of geopolitical tensions could impact a range of commodities that have significant influence on global inflation, including oil and wheat. Changes to the path of inflation could influence Fed rate decisions and investors' appetite for risk.
- **Uncertainties about US elections this November**. We anticipate a highly contentious campaign, with the two candidates espousing competing world views on issues ranging from taxation to industry regulation to foreign policy. Geopolitics will cast a shadow over this year's presidential election. America's enduring commitment to its transatlantic alliances has come under scrutiny, and tensions in the US-China bilateral relationship remain elevated.

We expect gold to trend higher to USD 2,250/oz by year-end but recommend taking an income generation approach given the metal’s strong recent rally, and would wait for price setbacks to gain outright exposure.

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