



(Shutterstock)

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.



Contributors: Wayne Gordon, Strategist UBS CIO; Giovanni Staunovo, Strategist UBS CIO; Tom McLoughlin, Head of Fixed Income and Municipal Securities, UBS CIO Americas; Julian Wee, Communications Specialist UBS CIO APAC; Jennifer Stahmer, Strategist, UBS Financial Services Inc.

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.