Gold has again demonstrated its worth as a hedge in a portfolio context, but CIO are cautious about chasing it from here. (UBS)

Gold: More than geopolitics

26 October 2023, 2:43 pm CEST, written by UBS Editorial Team

Once again, gold has proven its worth as a geopolitical hedge in the weeks following Hamas's attack on Israel.

Historically, though no two events are the same, the percentage change in the gold price as a result of a broader "risk-off" event has on average been in the mid-single digits. But, we acknowledge the impact from such events also tends to fade quickly.

It is also important to look at event-driven risk premiums, which reflect the impact on gold prices outside of changes in its key financial drivers (USD, US real rates, 2- and 10-year Treasury yield differential, equity risk premium, and the VIX). We see that the recent jump in the risk premium is large versus the average of past events, but in line with the US banking turmoil in March. Moreover, risk premiums on average peak around 20–30 trading days after the event, though the impact of Russia's invasion of Ukraine and the COVID-19 pandemic lasted longer.

Overall, gold's reaction to the Israel-Hamas war supports our view of its importance in long-term portfolios. This status has only increased in recent years, in view of geopolitical unrest and rising uncertainty around long-term macro anchor points in areas like inflation and interest rates. We believe a percentage allocation of around mid-single digits is appropriate within a balanced portfolio. But, before adding new short-term recommendations, we seek confirmation of a peak in US real yields and fresh ETF inflows.

Read the original report : **Gold: More than geopolitics, 24 October 2023.**