CIO continues to rate gold as Attractive and recommends to position for further upside, with prices expected to trade near USD 2,850/oz in March 2025. (UBS)

CIO continues to rate gold as Attractive

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Gold prices touched another all-time high above USD 2,758/oz this week, and are on track for their sixth weekly advance over the past seven weeks. Spot prices have now risen 32% this year, with the latest leg up encouraged by central bank easing, rising US election uncertainty, and geopolitical conflicts in Ukraine and the Middle East.

While the speed and scale of gold's rally this year could trigger the occasional bout of volatility, we think prices will continue to rise in the months ahead:

Gold should continue to benefit from declining real rates. The Federal Reserve easing cycle is still at an early stage, in our view, with 100 basis points of cuts expected in total this year, and another 100bps in 2025. Gold has historically rallied by as much as 10% in the six months after the first Fed cut, according to the World Gold Council. Global rates are also going down, with China and Canada's central banks cutting rates this week by 25bps and 50bps, respectively, and the European Central Bank (ECB) easing by 25bps last week. We also see gold benefiting from dollar weakness next year as both rates and bond yields decline, while the metal's political hedging utility could blunt near-term dollar upside risks if former President Donald Trump wins the US election.

Geopolitical flashpoints are no closer to resolution. An expected Israeli strike on Iran has not yet materialized ahead of regional peace talks in Doha this weekend. Still, the deaths of Hamas leader Yahya Sinwar and Hezbollah's heir apparent leader Hashem Safieddine do not appear to have changed Israel's approach, with continued strikes this week in both Gaza and Lebanon. In an escalation, North Korea has reportedly sent troops to Russia's border region ahead of a possible wider deployment in Ukraine. Ukraine's president last week said his country could seek nuclear weapons if NATO membership were ruled out.

Dollar diversification is driving flows, too. US President Joe Biden this week announced a USD 20bn loan to Ukraine backed by interest earned on "immobilized" Russian sovereign assets. The West's approach has fueled central bank diversification into gold in recent years. Central banks purchased a record 483 tons in the first half, according to World Gold Council data, with Turkey, India, China, and Poland topping the list.

ETF data shows inflows into gold ETFs also continued in August for a fourth consecutive month. Total holdings have rebounded to nearly 3,182 metric tons, the highest since the start of the year, narrowing the year-to-date loss to 44 metric tons.

So, we continue to rate gold as Attractive and to position for further upside, with prices expected to trade near USD 2,850/oz in March 2025. Recent events have underscored gold's hedging qualities and utility from a portfolio perspective, and we reiterate our recommendation for a diversified USD-denominated portfolio to include a 5% allocation to gold as a broad hedge. As returns on cash are eroded by this lower interest rate environment, more investor funds may end up redirected into assets like gold. Alongside physical gold, investors may consider exposure through structured strategies, ETFs, or via gold miner equities. Investors unaccustomed to the volatility of individual commodities may also consider exposure via an actively managed strategy that seeks to deliver alpha over comparable passive indices.

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Original report - **Gold's record highs shouldn't halt its climb, 25 October 2024.**