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OCTOBER 2024

Golden Rule: Gold Belongs in Every Investor's Portfolio

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Introduction

For decades, the standard blueprint for a well-rounded portfolio has been a mix of stocks and bonds. Stocks offer growth, while bonds provide stability, creating a balance that many investors have come to rely on. The success of this asset mix has led investors to overlook a historically top-performing asset that has offered diversification when investors might have needed it the most.

Enter gold: an asset that has stood the test of time, offering performance, protection and diversification. In a world of rising uncertainties—whether inflation, geopolitical tensions, or massive government debt—only relying on traditional asset classes, like stocks and bonds, may no longer be prudent to manage risk while capturing upside, not to mention the inherent difficulties with asset allocation and market timing. The recent outperformance of gold is telling us something – and we think that it is time to listen!

In this paper, we'll examine why every investor should maintain an allocation to gold, why now is an especially compelling time to do so and the ideal portfolio weighting to this precious metal.

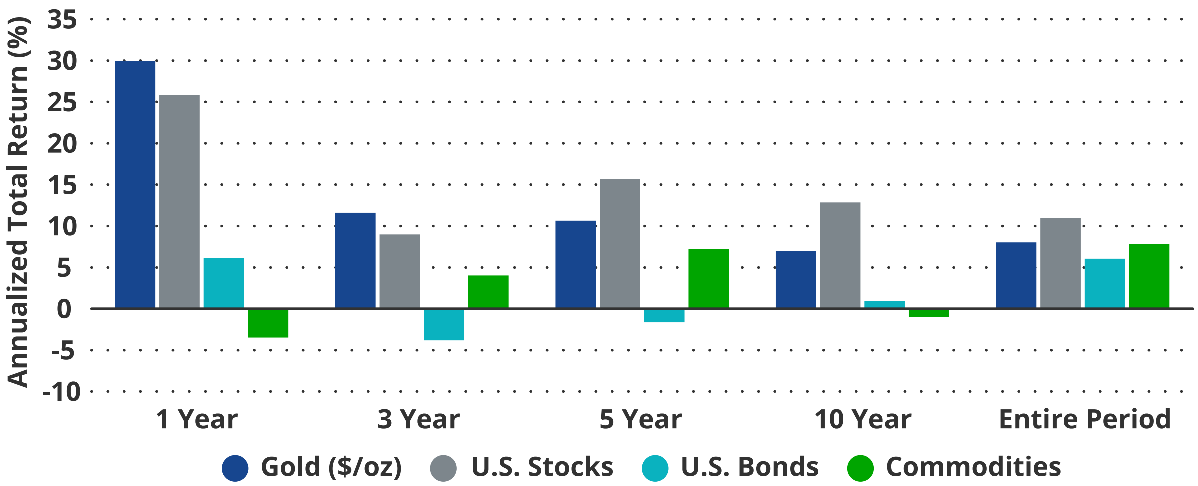
Why Gold Is Essential for Every Portfolio

1. Gold Is a Great Performer

Gold's performance isn't tied to the economy in the way that stocks and bonds are. It's independent, making it a unique asset class that can perform well when other investments are struggling. In a portfolio, this can provide a valuable counterbalance to market fluctuations.

Compared to stocks, bonds, and commodities, gold is a top-performing asset over short-, medium- and long-term windows:

Gold performance versus other asset classes (1972 to 2024)



Source: VanEck, FactSet. Data as of August 2024. "U.S. Stocks" represented by the S&P 500 Index. "U.S. Bonds" represented by U.S. Treasury Bond (10-Year Estimate)—calculated using a constant average duration of 8.105 and the daily yield from U.S. 10-year treasuries to infer a daily return series. "Commodities" represented by Bloomberg Commodity Index. Past performance is not indicative of future results.

Not only does gold outperform, it outperforms independently! The chart below demonstrates that gold is uncorrelated to stocks and bonds:

Gold correlation with U.S. stocks and bonds (1972 to 2024)

	U.S. Stocks	U.S. Bonds	Gold ($/oz)
U.S. Stocks	1.00		
U.S. Bonds	0.11	1.00	
Gold ($/oz)	0.03	0.09	1.00

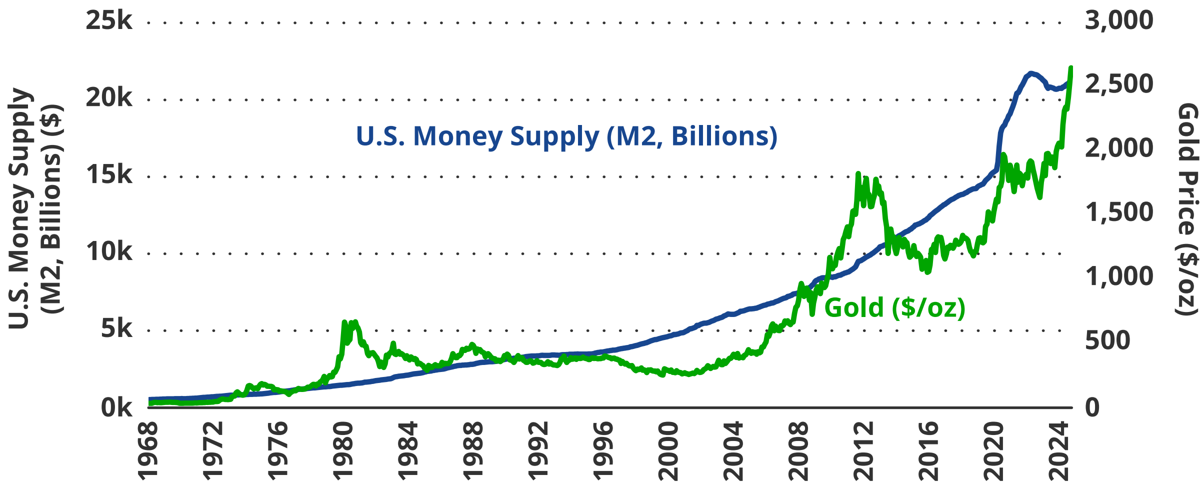
Source: VanEck, FactSet. Data as of August 2024. "U.S. Stocks" represented by the S&P 500 Index. "U.S. Bonds" represented by U.S. Treasury Bond (10-Year Estimate). Past performance is not indicative of future results.

2. Gold Prices Increase with the Money Supply

Prior to 1971, gold was directly linked to the U.S. dollar under the Bretton Woods system, where gold could be converted into U.S. dollars at a fixed rate of $35 per ounce. This was not sustainable because it limited the government's ability to depreciate the dollar (print money out of thin air) to support the economy (spend more than it was collecting).

Gold has since served as protection against the government's never-ending money printing/overspending policy agendas as, historically, it has maintained its value while the U.S. dollar has not. This chart shows the relationship between U.S. money supply (M2) and the price of gold:

Gold price versus U.S. money supply (M2)



Source: VanEck, Federal Reserve Bank of St. Louis. Data as of August 2024.

Never-ending increases in the money supply are the mechanism that supports the total absence of financial constraint through the depreciation of the U.S. dollar. So, in many ways, the perpetual price appreciation of gold reflects how poor of a store of value the U.S. dollar has been.

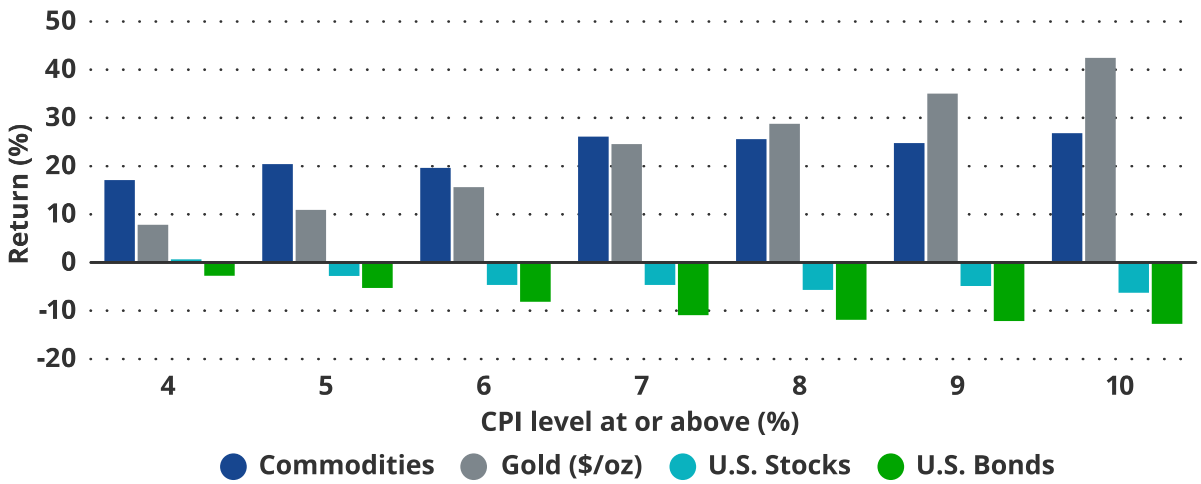
3. Gold Shines During Inflationary Periods

The future path of inflation is a contentious debate. Our view is that the financial instability resulting from extreme spending, debt and money creation, combined with geopolitical risks, create an ideal environment for a sustained period of above-target inflation. However, in this paper, we have no ambitions of convincing you that these risks will materialize into elevated inflation going forward. But, to deny these risks exist is far from wise and is contrary to the spirit of diversification.

Regardless of your views on inflation, it is not debatable that inflation is a risk, and, like all major risks, it should be addressed with diversification. Inflation is one of the most potent threats to the value of your investments. Over time, it eats away at purchasing power, erodes corporate profits and reduces the real value of bond interest payments. While inflation may seem under control now, the current environment suggests we are still far from safe.

Gold, as a store of value asset, is the time-tested hedge against inflation:

Gold versus other asset classes at varying inflation levels (1969 to 2024)

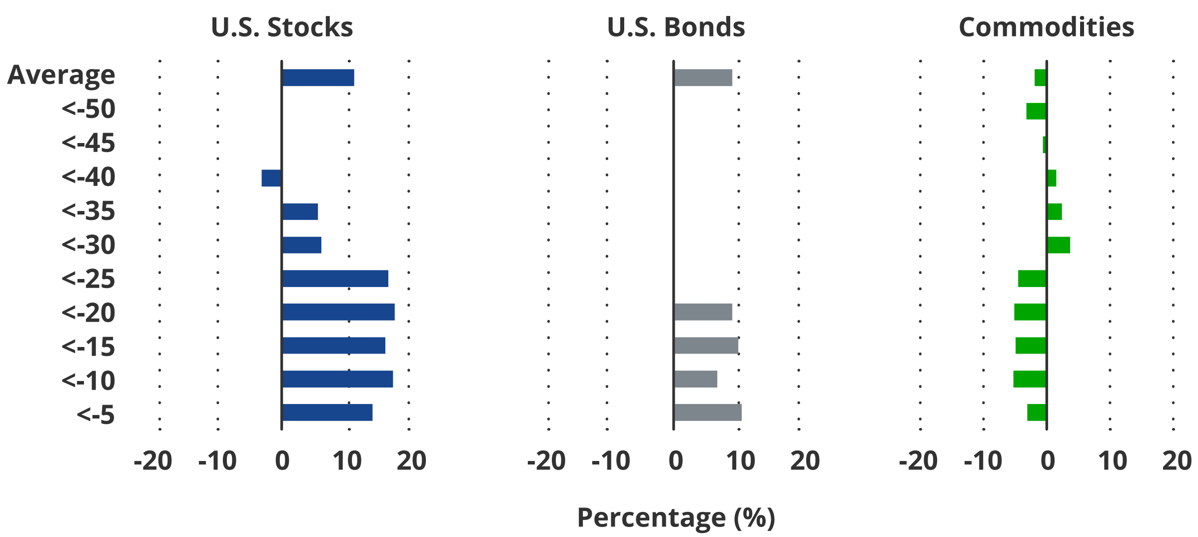


Source: VanEck, Bloomberg. Data as of September 2024. "U.S. Stocks" represented by the S&P 500 Index. "U.S. Bonds" represented by U.S. Treasury Bond (10-Year Estimate). "Commodities" represented by Bloomberg Commodity Index. Past performance is not indicative of future results.

4. Gold Protects During Market Weakness

Markets can turn on a dime. Whether it's a recession, geopolitical crisis or pandemic, stock markets can - and do — experience periods of significant weakness. During these times, investors search for safe havens. This is when gold can truly protect.

Gold average return during drawdowns in U.S. stocks, bonds and commodities



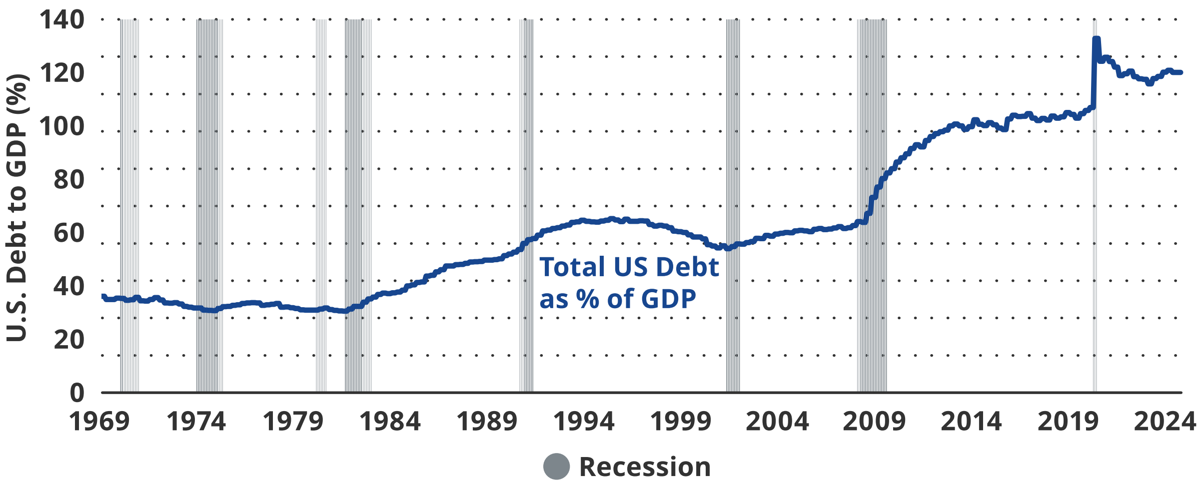
Source: VanEck, Bloomberg. Data as of August 2024. "U.S. Stocks" represented by the S&P 500 Index. "U.S. Bonds" represented by U.S. Treasury Bond (10-Year Estimate). "Commodities" represented by Bloomberg Commodity Index. Past performance is not indicative of future results.

Why Gold Is Even More Attractive Now

1. The U.S. Government's Debt Problem

The investment rationale for gold is magnified in today's unique economic environment as one particular issue stands out: the U.S. government's massive debt burden, which has roughly doubled in the past 15 years. The chart below demonstrates the expanding debt level and how the debt balloons during economic recessions:

U.S. Treasury debt as a percentage of GDP



Source: VanEck, St. Louis Federal Reserve Bank. Data as of August 2024.

Viewed another way, here is a comparison of recessionary periods and the expansion of the fiscal deficits:

Recession periods and increase in the deficit

Recession Start	Increase in Deficit
Dec 1969	2.8%
Nov 1973	3.7%
Jan 1980	1.4%
Jul 1981	3.6%
Jul 1990	1.5%
Mar 2001	6.2%
Dec 2007	8.8%
Feb 2020	13.2%
Average	5.1%

Source: VanEck, Federal Reserve Bank of St. Louis. Data as of August 2024.

The U.S. government deficit is currently $2.1 trillion during a period of economic expansion, while the country's current budget deficit to GDP is -7.2%. Why couldn't the government simply reduce spending and lower the overall deficit over time? A reduction in government spending would weigh heavily on the economy and likely trigger a recession. During the last eight recessions, the deficit to GDP ratio increased on average by 5.1%. However, the past three recessions resulted in an increase to the deficit to GDP ratio of 9.4%, as more leverage in the system requires more support during periods of weakness.

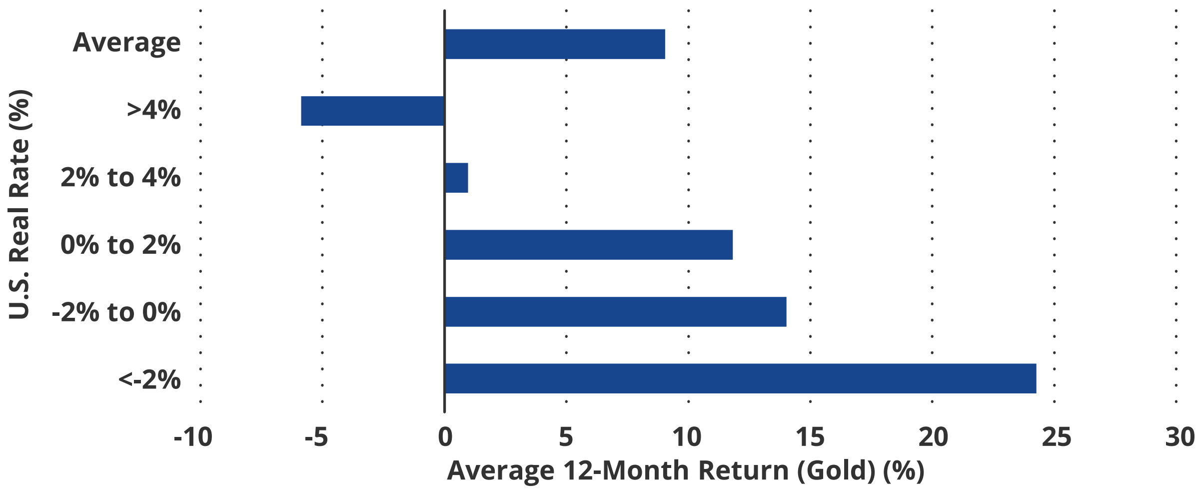
Decades of excessive and reckless government spending have put the economy in a box. Expect more spending, debt, money printing and outperformance from gold.

2. Low Real Interest Rates

The U.S. is caught in a classic debt trap. The federal debt is so large that it cannot be sustained with typical economic growth or traditional monetary and fiscal policies. One way to get out of this trap is with low or negative real interest rates—which means that inflation must stay higher than interest rates for an extended period. This allows the government to use inflation as a tool to repay its debt with devalued dollars.

The chart below demonstrates the outperformance of gold during periods of low and negative real interest rates:

Average gold performance in varying real rate environments



Source: VanEck, Bloomberg. Data as of August 2024.

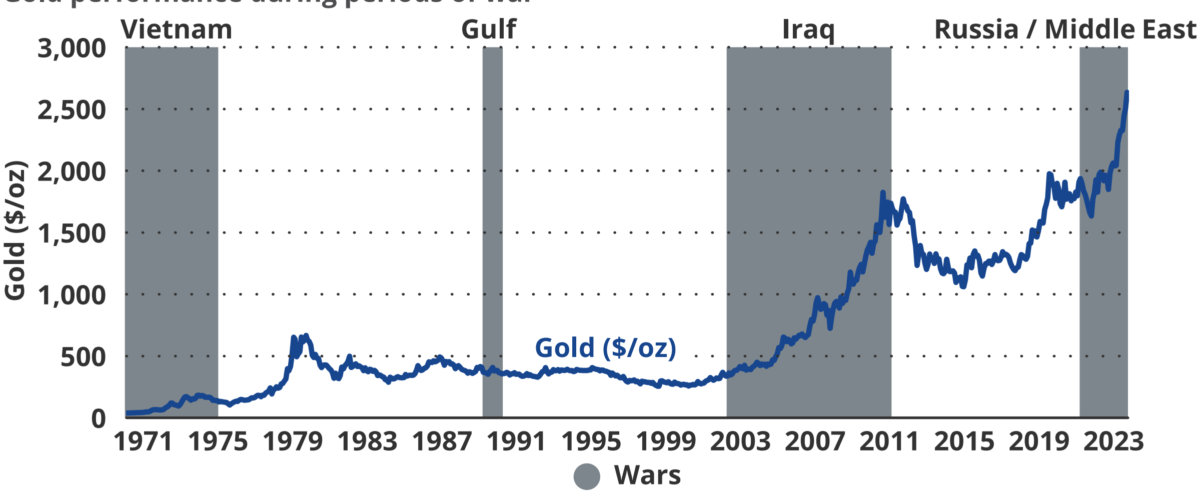
The debt trap results from the negative feedback loop of rising debts, money supply and inflation. This is the formula for a sustained bull market in gold.

3. Uncertainty on the Global Stage

We live in uncertain times. The world today is marked by escalating geopolitical tensions, trade disputes and financial instability. From the U.S.-China rivalry to the wars in Ukraine and the Middle East, these uncertainties create risk and volatility in financial markets.

Gold has always performed well during times of geopolitical unrest. When tensions rise, markets become nervous and investors look for assets that provide security. Gold, as a universally recognized store of value, benefits from these shifts in sentiment. In an increasingly fragmented and unpredictable world, gold can offer stability that few other assets can match.

Gold performance during periods of war

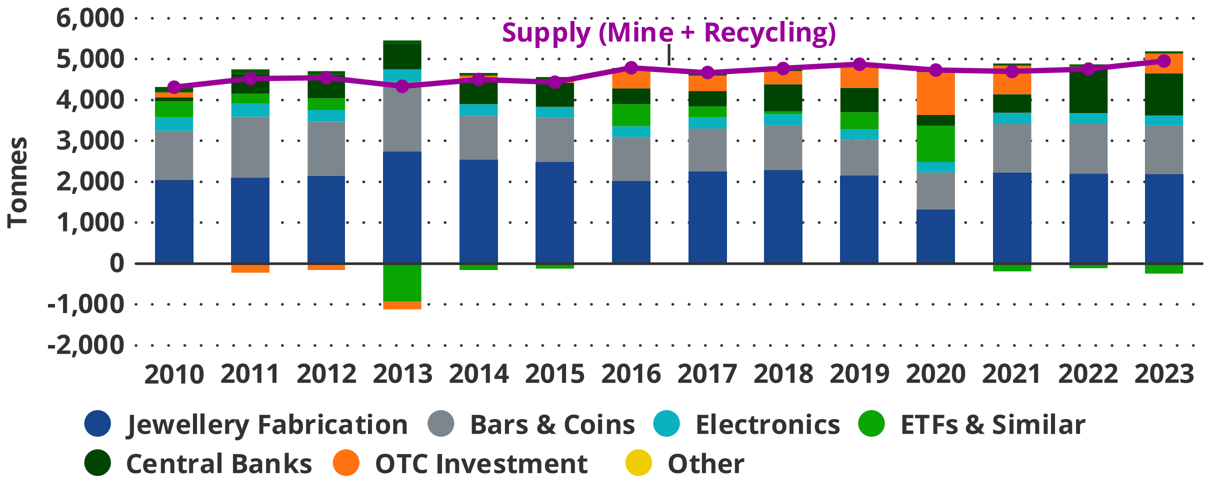


Source: VanEck, Bloomberg. Data as of August 2024.

4. The Return of the Investors

People buy gold for many different reasons. The chart below represents the supply/demand breakdown of the major participants in the gold market:

Global gold supply/demand breakdown



Source: VanEck, World Gold Council. Data as of September 2024.

For investors, the reason is simple: they want to make money or at the very least, limit losses., As such, there is a strong positive correlation between the performance of gold and investor demand for gold. Or, more simply, investors tend to invest in the gold when it performs well and visa versa.

Correlation of gold with various supply/demand variables

	Quarterly Level	Annual Level	Quarterly Change	Annual Change
Central Bank Demand	-0.12	0.00	-0.42	-0.32
ETF Demand	0.69	0.72	0.63	0.43
OTC Investment Demand	0.09	0.42	0.13	0.26
Fabrication Demand (Total)	-0.44	-0.69	-0.44	-0.50
Gold Mine Supply	0.20	0.51	-0.16	-0.37
Recycled Supply	0.45	0.63	0.50	0.63

Source: VanEck, World Gold Council. Data as of September 2024.

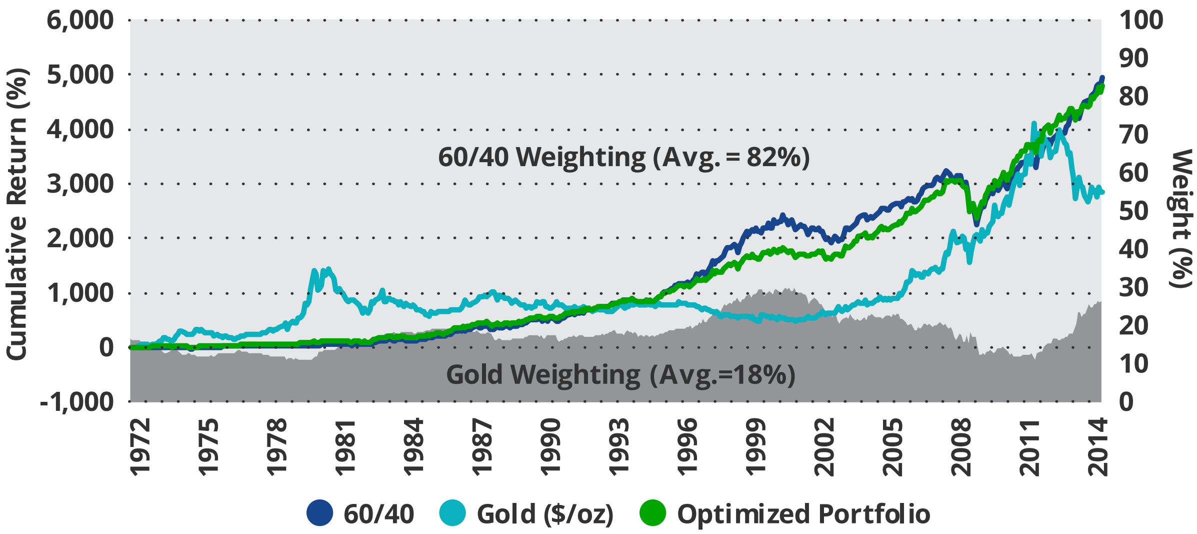
This paper has highlighted many compelling reasons to buy gold. Irrespective of those, we remain confident that investors will buy gold simply because it is outperforming. That demand will drive the next leg of this bull market.

How Much Gold Should You Allocate?

Now that we've firmly established the case for gold, the next question is: how much should you allocate within your portfolio?

To answer this question, we ran a mean variance optimization on a 60/40 portfolio of stocks and bonds with gold to understand what mix would have given us the best risk-adjusted returns. This optimization was run monthly, with a minimum of 10-year windows, to guard against fitting or "over optimizing". More simply put, the optimization process solves for how much gold to include in a 60/40 portfolio each month and what that average would be over time.

Mean variance optimization of a 60/40 portfolio and gold (1972-2014)*



Source: VanEck, Bloomberg. Data as of August 2024. "60/40" represented by a blended return of 60% S&P 500 Index and 40% U.S. Treasury Bond (10-Year Estimate). Past performance is not indicative of future results. *Note: data presented above represents the latest available based on guidelines for developing and presenting internally-generated portfolio optimizations.

The answer: investors should have allocated 18% to gold and 82% to the portfolio of stocks and bonds. While there's no one-size-fits-all answer, a 5% to 20% allocation to gold is well supported with a time-tested approach to asset allocation. This should be enough to provide significant diversification benefits and protection against inflation, market volatility and geopolitical risks.

Gold shouldn't be seen just as a speculative play or a temporary hedge. Gold is a strategic long-term investment that can enhance your portfolio's resilience. Unlike other assets, gold is not tied to corporate earnings, interest rate policies or government fiscal decisions. It moves to the beat of its own drum, providing valuable diversification that can enhance risk-adjusted returns over time.

Conclusion

In an investment world dominated by stocks and bonds, gold often gets overlooked. Yet, as we've seen, gold can offer unparalleled benefits to investors looking to protect and grow their wealth. It thrives during inflation, protects during times of market stress and has a proven track record as a long-term store of value.

In today's unique economic environment of ballooning debt and geopolitical uncertainty, gold's role is more critical than ever. By allocating a portion of your portfolio to gold—whether it's 5%, 10% or even 20%—you are not just hedging against risks, you are also adding a truly independent asset with a strong track record of success.

The world is unpredictable, but gold has been a reliable store of wealth for thousands of years. In today's volatile financial markets, that's a golden opportunity you can't afford to ignore.

IMPORTANT DISCLOSURES

Index definitions:

Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. **S&P 500 Index** consists of 500 widely held common stocks covering industrial, utility, financial and transportation sector. **U.S. Treasury Bond** (10-Year Estimate) is the interest rate the U.S. government pays to borrow money for a decade, serving as a benchmark for other interest rates and a key indicator of investor sentiment about economic conditions.

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Gold investments are subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary and political developments. Investments in gold may decline in value due to developments specific to the gold industry. Foreign gold security investments involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability. Gold investments are subject to risks associated with investments in U.S. and non-U.S. issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, gold-mining industry, derivatives, emerging market securities, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met and investors may lose money. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future performance.

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