GOLD USUALLY DIPS BEFORE MAKING SUBSTANTIAL GAINS IN FINANCIAL CRISES

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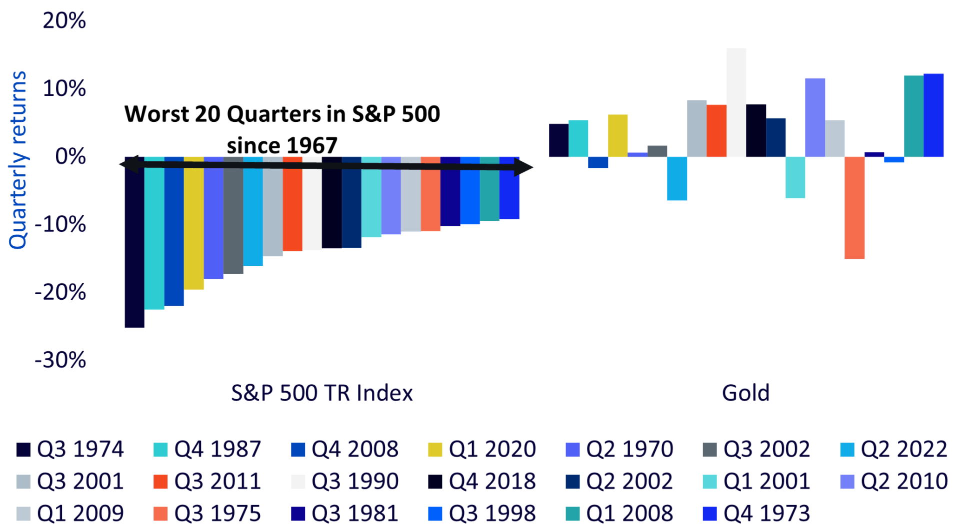
Olympians equate gold with being the best performer in an environment of high pressure. So should investors. Gold is anti-cyclical and considered a safe-haven asset, performing strongly in times of crisis. However, the results are not instant, and gold has been known to dip before sprinting to the photo finish.

Gold is a perfect hedge for financial market stress

The chart below shows that gold has outperformed equities in 19 out of 20 of the S&P 500's worst quarters since 1970. The sole exception was in 1975, a year after exceptional gold performance (which is thus seen as a fair-value correction). Moreover, in 15 of the 20 quarters, gold performed positively (and all the worst S&P 500 quarters were negative).

Figure 1: Gold returned positive performance in 15 of the 20 worst quarters for S&P 500



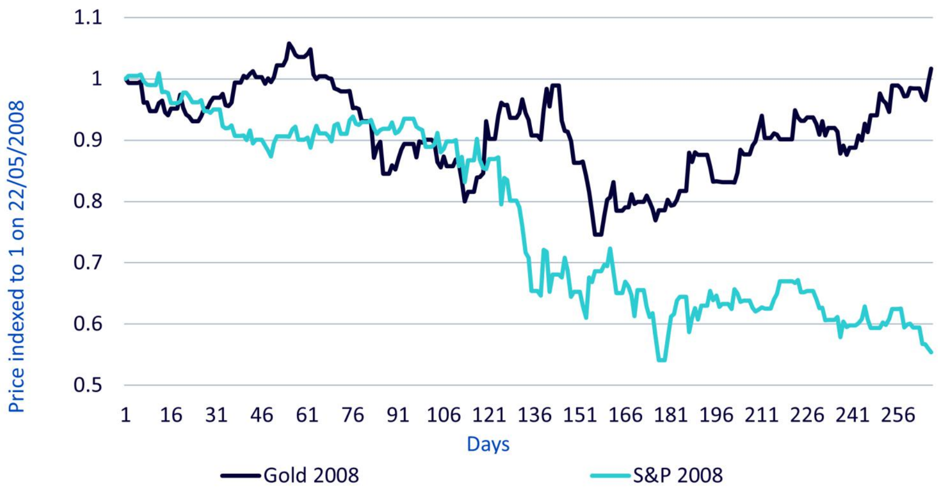
Source: WisdomTree, Bloomberg. In USD. From 31 December 1967 to 30 June 2024, using quarterly data. Gold is proxied by the LBMA Gold Price PM Index and S&P 500 is proxied by the S&P 500 Gross Total

Return Index. **Past performance is not indicative of future results. You cannot invest directly in an index.**

Not an instant result

Results are not instant, however. Even in the global financial crisis of 2008, gold fell in tandem with S&P500 for about a month (starting in mid-May 2008) before turning. Even then, there were some sharp corrections in gold before the two assets separated in spectacular form.

Figure 2: Gold and S&P 500 performance in the global financial crisis of 2008

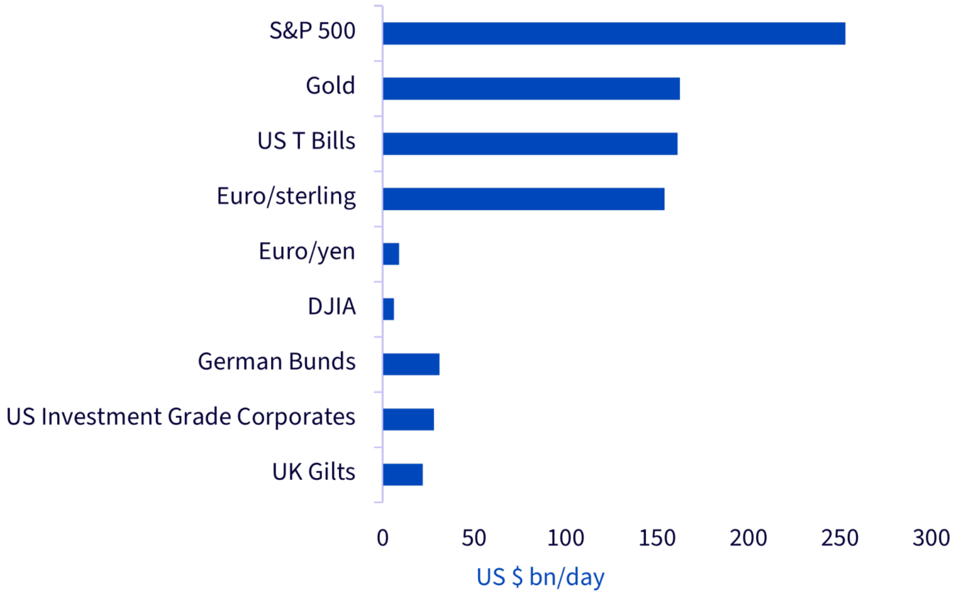


Source: WisdomTree, Bloomberg. In USD. 22 May 2008 to 2 February 2009, using daily data. Gold is proxied by the LBMA Gold Price PM Index and S&P 500 is proxied by the S&P 500 Gross Total Return Index. **Past performance is not indicative of future results. You cannot invest directly in an index.**

Why does gold dip before sprinting?

Correlations across all assets pick up during a crisis. A bloodbath does not discriminate in initial phases. One possible reason is that assets such as gold are used as highly liquid (see Figure 3), cash-like instruments that are needed in times of stress to meet margin calls in other futures positions and risk-covering activity. That selling for liquidity needs initially places downward pressure on gold.

Figure 3: Average daily trading volumes of major assets in US dollars



Sources: Bloomberg, Bank for International Settlements, FINRA TRACE, International Capital Market Association (ISMA), Nasdaq, World Gold Council; Disclaimer *Based on estimated one-year average trading volumes from 1 January 2023 to 31 Dec 2023, except for currencies that correspond to April 2022 daily volumes due to data availability. **Gold liquidity includes estimates on over-the-counter (OTC) transactions and published statistics on futures exchanges, and gold-backed exchange-traded products. DJIA is Dow Jones Industrial Average. **Past performance is not indicative of future results. You cannot invest directly in an index.**

This works well for investors as it creates new entry points with plenty of time to react. These initial price declines will increase the upside potential, especially as rate cuts from the US Federal Reserve appear just around the corner. As we discuss in our recently published Gold Outlook, when rate cuts come into effect, we expect a very bullish environment for gold. The recent price dips have made the entry point even more attractive.

How can investors access the opportunity?

At WisdomTree, we offer investors a range of solutions for investing in gold, ranging from physically backed gold exchange-traded products to short and leveraged gold exposures. Physical gold exchange-traded commodities (ETCs) provide an easy and cost-efficient exposure to gold bullion held in vaults in London or Zurich from reputable and highly secure custodians.

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