



## Is gold a suitable hedge against inflation?



In the summer of 2020, the „safe haven“ gold still climbed to a new all-time high in USD and EUR in the wake of the Corona pandemic. With the increasing recovery of the economy and a higher risk appetite of investors in the financial markets, the gold price slightly decreased. In recent weeks, however, burgeoning inflation concerns have led to price increases again. The question remains: is gold a suitable hedge against inflation at all?

### The statistics disagree

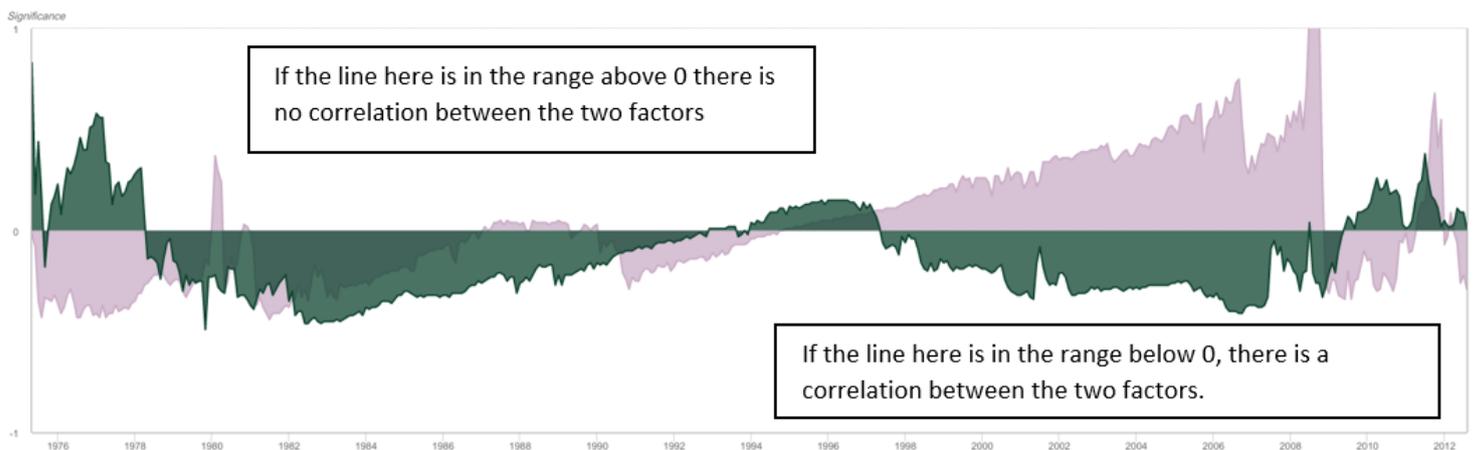
Gold has the reputation of being a suitable hedge against inflation as it is real asset class. However, financial statistics do not provide clear evidence for this. Gold is generally subject to many different, even diverging influencing factors, such as the USD exchange rate and the interest rate level. Higher inflation also means higher interest rates in the medium term, which means higher opportunity



costs and thus a negative impact on the gold price. Also, higher inflation often indicates a brimming economy, which is positive for riskier asset classes such as equities. In other words, how the gold price really develops depends on which influencing factors prevail in the end. One study shows that gold tends to perform well in an environment of rising inflation, but once monetary policy tightens (i.e. becomes more restrictive and raises interest rates), the negative impact of higher yields outweighs the positive.

Other research indicates that historically there have been periods of strong correlation between inflation and the price of gold, and then periods where the two variables have moved independently of each other. The chart below shows that between 1995 and 2009 there was no significant correlation between the inflation trend and the gold price trend.

### Relationship between monetary policy and gold price (green) and inflation and gold price (purple)



Source: World Gold Council; Bloomberg

On a one to two year horizon, it is therefore difficult to say whether gold is a suitable hedge against higher inflation. From our point of view, it is mainly equities that are currently benefiting from the economic recovery. However, gold has a right to exist in the portfolio context in the long term.

### Gold in the portfolio: Diversification function

In our opinion, gold has a diversification function in the portfolio context. Price fluctuations are sometimes as high as for equities, but without generating an additional return in the form of dividends or interest payments.

In times of increased uncertainty, however, gold acts as a safe haven due to its historical significance. This makes the precious metal a perfect addition to the portfolio.

The right amount of gold in a portfolio depends on the individual investment circumstances and objectives. It is best to discuss this with your private banker at your next consultation!

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We will gladly handle the purchase for you and rent safes of various sizes for storage at our premises.

**2) The Kathrein Gold Account**

The gold bars physically stored and insured at RBI are listed on your Kathrein custody account statement, so that you always have an overview of your holdings and their market value. The gold bars can be delivered at any time upon request.

It is expressly pointed out that despite the fact that the gold holdings are shown in the Kathrein custody account reporting, physical gold is acquired by the customer and only the custody is carried out via Kathrein; no financial instrument relating to gold is acquired, but physical gold.

**3) Physical Gold ETC & Gold Certificates**

**4) Various other investment products**

with gold as underlying asset can be tailor-made for you.

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