Focus

Going for Gold

In times of uncertainty, investors may seek security in safe havens, like gold. But why? And could now be a good time to consider an allocation within your portfolio?

Role of gold

Over centuries, gold has been a prized asset and has maintained its value, but without being blinded by its sparkle, gold can play a useful role in an investment portfolio:

- **Long-term inflation hedge** as the price of gold typically rises as cost of living increases.
- Conversely, gold delivers good **deflation protection** as people naturally turn to it during crises.
- **Portfolio diversification** as the value of gold is relatively uncorrelated to other asset classes.

When markets are strong and inflation is low, gold might offer underperformance.

For this reason it could be considered as a strategic long-term allocation. ■

Why now?

Since the onset of the Covid-19 pandemic, markets have been volatile and gold has delivered as a safe-haven asset[1]. Gold has benefitted simultaneously from economic uncertainty, increasing government deficits and central banks QE purchase programmes that provide abundant liquidity in the financial system.

It might be argued that the "gold" ship has sailed as markets have made a recent comeback and investors are edging towards a more risk-on approach.

However, gold could remain a valid hedge in a portfolio. Three of the key drivers of gold pricing are real US interest rates, US Dollar and US Equity market volatility, given these drivers centre on the US there remains significant uncertainty around forthcoming elections and the potential of a second wave of COVID 19.

While there are no certainties as to how the price of an asset will move in the future, we can use history as a guide in identifying helpful leading indicators. If gold responds to continuing financial market volatility and economic uncertainty as it has in recent past, it may be a useful allocation for portfolios. ■

Getting exposure

Unless you have a secure vault for storing gold bullion, you might find it easier to use an exchange-traded commodity (ETC) – in fact in the UK alone over £6 billion in assets flowed into gold ETCs in the first five months of 2020[2]. Using carefully chosen listed vehicles for gold can offer some advantages:

- By using a **physical-backed ETC** you know that there is real gold backing your investment safely stored at a secure location.
- With ESG in mind, by carefully selecting a **responsible manager** you can rest in the knowledge that the physical gold is sourced responsibly from conflict-free, legal sources.
- Using an ETC to gain exposure to gold offers the usual benefits of **liquidity and simplicity**.
- In light of gold's static long-term role in a portfolio focused on delivering in times of uncertainty, it is important not to overpay for the exposure. The **cost-efficiency** of an ETC makes it a well-suited vehicle.

As Nicolas Fragneau, Head of ETF Product Specialists at Amundi said recently, "Gold has such an important role to play in times of uncertainty. Our aim is to make it as cheap, easy and safe as possible for investors to add this precious commodity to their portfolio." ■

1 Source: World Gold Council, Gold: The simplest investment for complex times
2 Source: World Gold Council, Global gold-backed ETF flows May 2020

Amundi ASSET MANAGEMENT | ETF

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The Amundi Physical Gold ETC offers investors exposure to the movements of the gold spot price. The ETC provides investors with a liquid, flexible and cost efficient way to invest in physical gold. The ETC is backed by physically allocated gold, which is held in a secure vault by HSBC, each physical bar is held in a segregated account, individually identified and allocated.

The fund is listed on the Euronext Paris, Deutsche Börse, Euronext Amsterdam and the London Stock Exchange with a total expense ratio of 0.15% (estimated).

To find out more about the Amundi Physical Gold ETC visit **amundietf.com** or email us at **info-etf@amundi.com**

Key risks of investment in gold

- Gold is generally more volatile than most other asset classes, making investments in Gold riskier and more complex than other investments, and the secondary market price of the ETC securities may demonstrate similar volatility.
- The issuer may elect to trigger an Issuer call redemption event and redeem all the ETC of a Series early on giving prior notice to investors.
- The value, the secondary market price and an early redemption amount or final redemption amount, as applicable, of the ETC will be affected by movements in the price of the Metal, market perception, the creditworthiness of certain transaction parties and the liquidity of the ETC in the secondary market. The price of the Metal (and, by extension, the price of the ETC) can go down as well as up and the performance of the Metal in any future period may not mirror its past performance.
- The minimum redemption amount of the ETC operates as a minimum repayment amount on the early or final redemption of the ETC. In the event that the Metal Entitlement of the ETC is insufficient to pay the minimum redemption amount to all investors on such early or final redemption, such investors may not receive payment of the minimum redemption amount in full and may receive substantially less.
- The investors are exposed to the creditworthiness of the Issuer, Metal counterparty, Custodian and the APs. ■

IMPORTANT INFORMATION

An Exchange Traded Commodity is a debt security and therefore is not a collective investment scheme for the purpose of the UCITS directive, and does not comply with UCITS regulations (i.e. "Undertakings for Collective Investment in Transferable Securities" – European Directive 2014/91/EU) - 2 Prospectus Directive: European Directive 2003/71/EC.

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