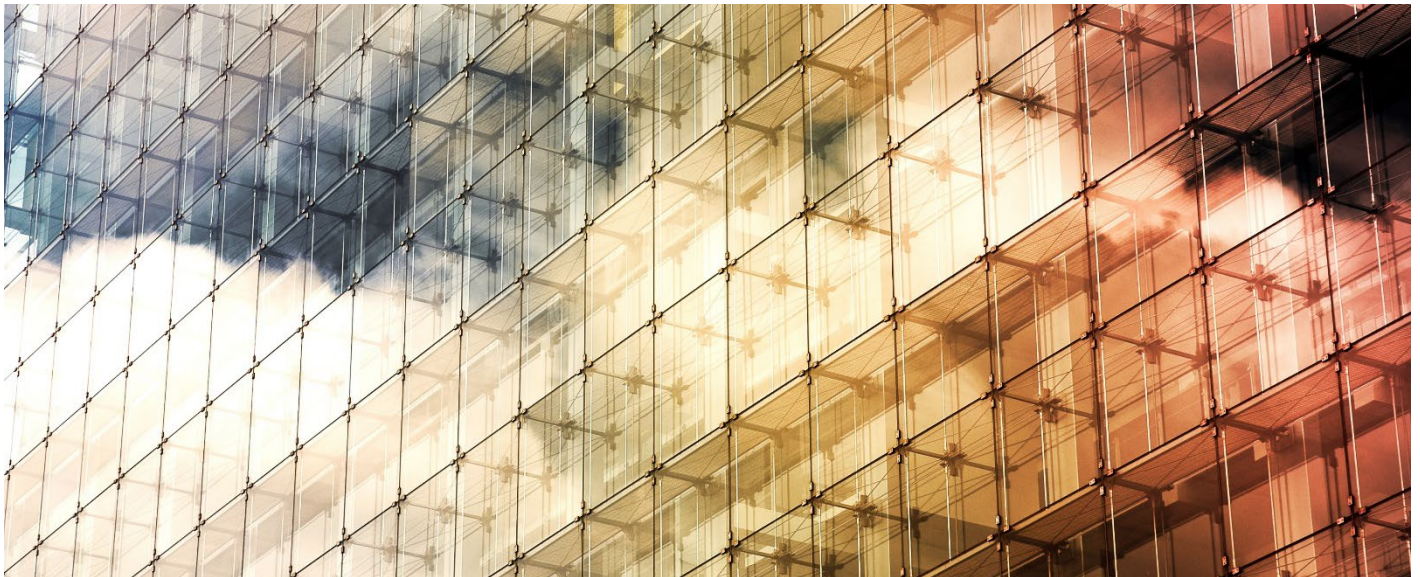


# Three Good Reasons

## Why we remain positive on gold

04 March 2025



### Contributors



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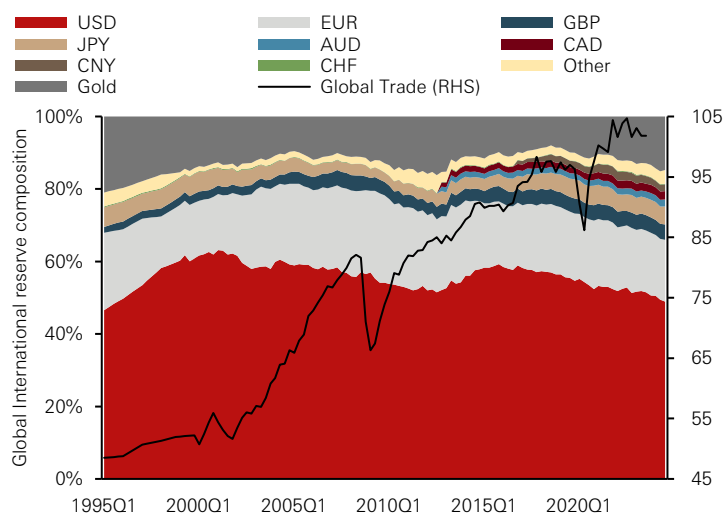
### **Highlights**

After a stellar year in 2024, we expect gold to continue its strong performance in 2025. Trend signals are bullish, and fundamentals are also supportive. With central banks continuing to increase their gold reserves as we are seeing setbacks in globalisation, we expect this to continue pushing gold prices higher. In a multi-asset portfolio context, excluding gold should result in sub optimal portfolios. We investigate the effectiveness of gold as a tail risk hedge and observe that historically, it has provided better overall protection than global aggregate bonds during market stress periods.

- ◆ In addition to bullish trend signals, fundamentals are also supportive for gold. There continues to be healthy demand for the precious metal from central banks and we are seeing a steady rise of their gold reserves. This can be attributed to heightened geopolitical volatility due to setbacks in globalisation and we expect this trend to continue.
- ◆ Historically portfolios that hold solely bonds and equities tend to be sub optimal compared to portfolios that also hold gold. We observe an upward shift in the efficient frontier when we add gold to the portfolio, highlighting the potential for greater returns for the same level of risk.
- ◆ The strong performance of gold appears to be driven by its safe haven properties during periods of market turbulence and elevated geopolitical risk. From our historical scenario analysis (January 2005 - February 2025), we can see strong evidence of gold being a more effective tail risk hedge than global aggregate bonds.
- ◆ The gold price has already increased by around 10% year-to-date at the time of writing. However, we maintain a bullish stance over the medium-to-long term and see gold as a great source of diversification, especially against an unwanted and unexpected drift lower in USD.

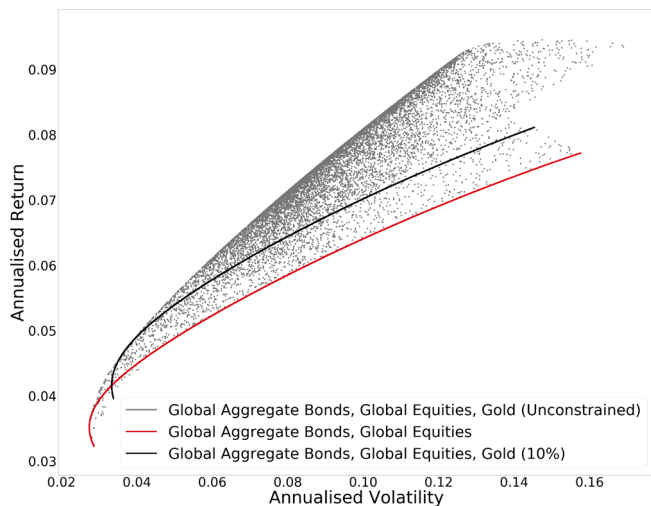
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- The US dollar's share of central banks' reserves is steadily falling while holdings in gold are rising.
- Geopolitics is a major factor, with setbacks in globalisation due to rising trade tensions coinciding with a build-up in gold reserves.
- Central banks want to diversify away from USD, but as there is no credible alternative currency, they are opting for gold.
- A further accumulation of gold seems likely, and investors can potentially benefit by adding gold to their portfolio.



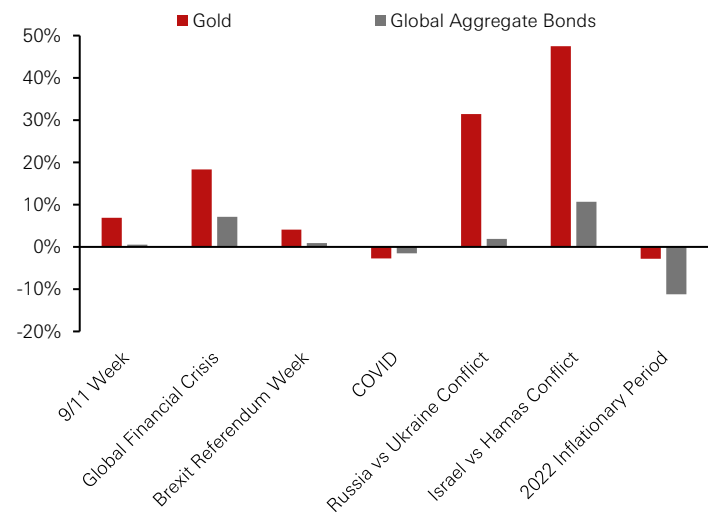
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- Adding gold to a multi asset portfolio allows investors to achieve a greater level of return for the same amount of risk.
- We can see in the chart that a portfolio holding only bonds and equities is sub optimal compared to a portfolio that also holds gold.
- The efficient frontier constructed with a fixed 10% allocation to gold lies above the efficient frontier constructed from an allocation to solely bonds and equities. When the position in gold is unconstrained, most of the points lie above the efficient frontier for an equity-bond only portfolio.



3

- Geopolitical uncertainty has remained high in recent times due to multiple regional conflicts and tariffs imposed and announced by the newly elected Trump administration.
- The chart on the right shows the performance of gold alongside global aggregate bonds during high geopolitical risk events.
- Gold appears to be a better tail risk hedge than global aggregate bonds in almost all of the historical scenarios considered.



# Risk Disclosures

## Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

### Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

### Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

### Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

**Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.**

Investors should note that their capital is at risk and they may lose some or all of their capital.

## Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

### Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

### Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

### Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

### Alternative Investments

**Hedge Fund** - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

**Private Equity** - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

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### Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions



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# Risk Disclosures

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may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

## **Currency risk – where product relates to other currencies**

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

## **Chinese Yuan ("CNY") risks**

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

## **Illiquid markets/products**

In the case of investments for which there is no recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

## **Environmental, Social and Governance ("ESG") Customer Disclosure**

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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## For SAA/TAA

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