Gold Brightens Dim Economic Recovery From COVID-19

The world is struggling with COVID-19 and will continue to do so for the foreseeable future. Countries and communities that contained the virus within their borders must contend with how to recover without experiencing another outbreak. Those that are still suffering from new cases must protect their population while containing potentially astounding impacts. No matter what the fight or recovery, whether we are discussing entire countries or individuals, having a strong financial foundation is key.

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As investors of all types and sizes are seeking shelter to protect their holdings so that they can weather the COVID storm, gold and precious metals have proven that it is a true safe haven. And as the economic outlook remains stark, gold continues to shine.

Financial markets are reeling from COVID

At the beginning of the crisis, it was understood that there could be an economic and financial impact where infections occurred with possible impacts in neighbouring areas. But COVID-19 spread far beyond a few cities in China and Europe, with almost every country in the world reporting cases. So economies had to scream to a halt as they faced a global public health crisis. Travel, even within countries, were severely limited or completely cut off. Trade trickled down to a standstill in many cases. And now the world economy is in recession.

The world's largest economy, the US, just reported its gross domestic product contracted by 32.9% in the second quarter of 2020, entering a recession after just recently recovering from one 11 years ago. Hong Kong, already in recession from the 2019 protests and the US-China trade war, saw its economy shrink by 9% during the same period. Singapore's GDP also fell, by 12.6%, marking the beginning of its recession. The World Bank reports that this will be the harshest global recession since World War II.

Gold and Silver vs. Major Assets YTD

Silver	+35.66%
Gold	+29.18%
Nasdaq	+26.82%
S&P 500	-0.38%
Dow Jones	-7.57%
Hang Seng	-11.70%
FTSE 100	-18.49%
PSEI	-23.66%

Data as of July 29, 2020

To combat the effects of this recession, governments implement quantitative easing measures, basically creating a flood of their fiat currency, announce severe trade restrictions, or demand caps on dividends. Such moves cause panic in investors who fear certain asset classes such as stocks and bonds will lose value. But not gold. Throughout this turmoil, gold, and silver, have surpassed expectations (see chart below) and proved itself as a safe haven during times of turmoil.

Economies will be slow in recovery

Even as we see the havoc from COVID-19 now, we must look to its impact on our future. Until a vaccine or an effective treatment is developed, economists from around the world continue to readjust their forecasts downward. Just a year ago, the World Bank and the WHO estimated that a moderate global pandemic could affect GDP by 2.2%, or around USD1.5tr. In light of the COVID-19 crisis, the World Bank now estimates that number for the COVID pandemic at 5.2%.

Recently, nevertheless, there has been some signs of recovery as certain markets look like they are rebounding. However, the International Monetary Fund has cautioned that there is a disconnect with this uptick. They point to how equity and bond markets may be performing well through increased borrowing due to low interest rates. There is a possibility that even with this increased cash flow, access to markets for the stock or bond issuers may lead to insolvencies in the future. This will strain the banking sector, which may make things worse for economies.

So, any positive outlooks must be tempered by the fact that the pandemic is still upon us, so investors must look to stable, reliable assets that can protect their portfolios. Such as precious metals like gold.

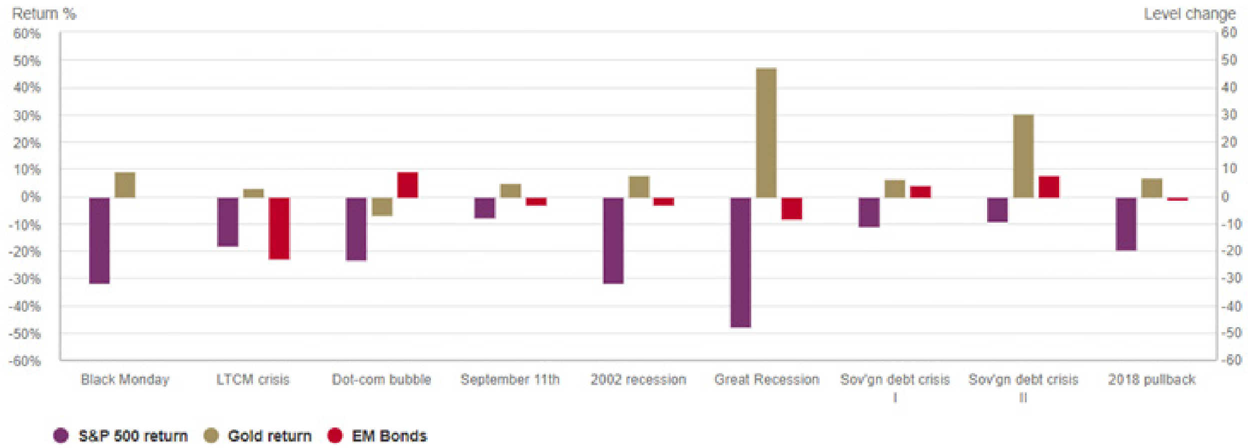
Gold grows and protects during downturns

If we look at history, we can see gold maintaining its role as a safe haven during times of financial crisis. Investors have traditionally relied on gold to balance their portfolio against riskier assets. They have done this with good reason. But rather than throw around statistics in a paragraph, we present a few charts that illustrate this clearly and concisely.

In this first chart below, gold has been an exceptionally standout performer against typically strong asset classes such as the S&P 500 through every financial crisis since Black Monday in 1987.

Gold's performance during historic financial stress events

Performance in Periods of Systematic Risk – S&P 500 and Gold return vs change in VIX level.



Sources: Bloomberg, World Gold Council; Disclaimer

The VIX is available only after January 1990. For events occurring prior to that date annualised 30-day S&P 500 volatility is used as a proxy. Dates used: Black Monday: 9/1987–11/1987; LTCM: 8/1998; Dot-com: 3/2000–3/2001; September 11: 9/2001; 2002 recession: 3/2002–7/2002; Great Recession: 10/2007–2/2009; Sovereign debt crisis I: 1/2010–6/2010; Sovereign debt crisis II: 2/2011–10/2011; 2018 pullback: 10/2018-12/2018.

When we consider economic turmoil, sheltering in safe havens like gold may prove profitable. But gold also has appeal for when considering long-term returns on investment. Looking over 10, 20, and even up to 50 years back, gold shows that it can offer up to a 10% return for investors, shown in the following chart.

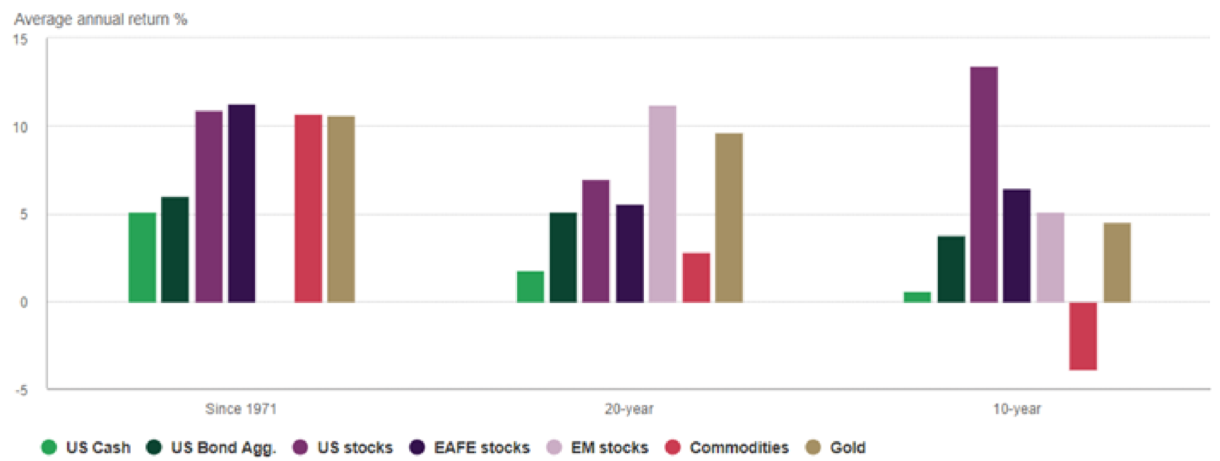
And all indicators point to gold continuing to be that safe investment that should be a part of every investor's strategy. Even as other asset classes and indices fluctuate and fall based on the news and COVID numbers of the day, gold has just continued on its path upwards (see below), with an over 21% return year-to-date.

Buying gold now is still a smart choice

There may be some concerns as to whether it is still a good time to buy gold. Especially since gold prices hit a record high just recently (25 July 2020) of US$2000), then dropped a few days later. This was just a minor

Gold has delivered positive returns over the long run, outperforming key asset classes

Average annual return of key global assets in US dollars*

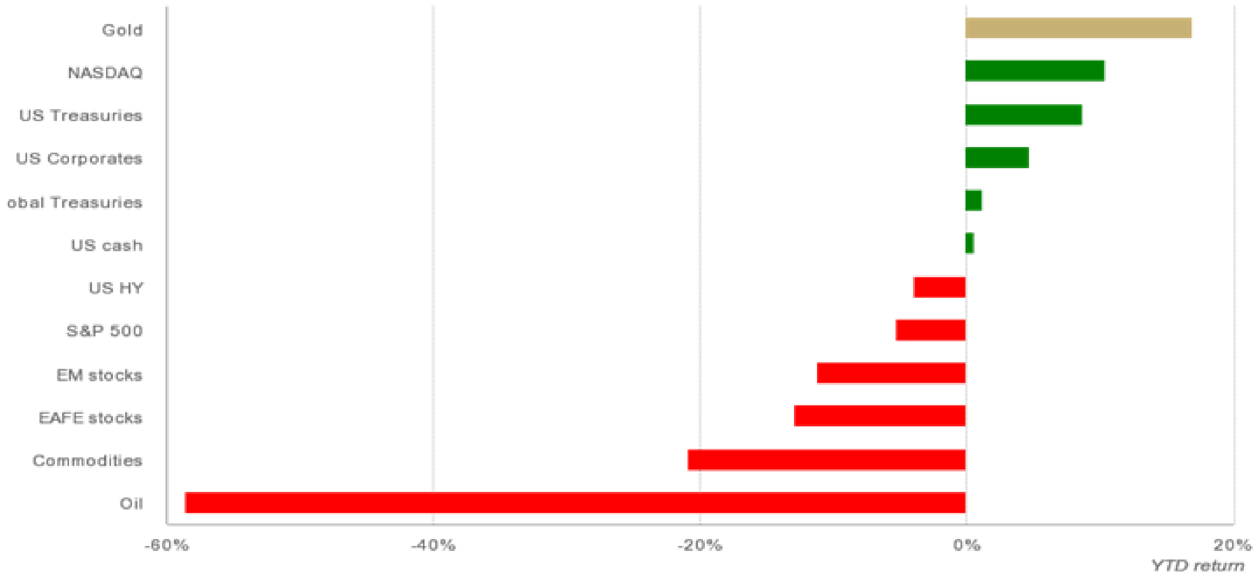


Sources: Bloomberg, ICE Benchmark Administration, World Gold Council; Disclaimer

*As of 31 December 2019. Computations in US dollars of total return indices for ICE 3-month Treasury, Bloomberg Barclays US Bond Aggregate, MSCI US, EAFE and EM indices, Bloomberg Commodity Index and spot for LBMA Gold Price PM.

Chart 1: Gold outperformed all major assets in H1

Y-t-d performance of major global assets*



*As of 30 June 2020. Returns based on the LBMA Gold Price PM, Nasdaq Composite, Bloomberg Barclays US Treasury Index and Global Treasury Index ex US, ICE BAML US 3-month T-bill Index, Bloomberg Barclays US Corporate and High Yield Indices, MSCI EM Index, Bloomberg Commodity TR Index, MSCI EAFE Index, S&P 500 Indices, and Bloomberg Oil TR Index.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

correction. J. Rotbart & Co. urges investors to look at the long-term picture as demonstrated above. Also, taken over this year to date, gold prices have consistently trended up , as illustrated in the chart below.

It is likely that by the time this article is posted, any losses will have turned around to gain, as global financial experts predict gold will reach US$3000 in the next year, with silver also seeing significant increases.

J. Rotbart & Co. wants investors to have a well-balanced portfolio of assets to protect their wealth so that they can thrive during this difficult time. We urge investors to allocate at least 10% of their holdings to precious metals like gold or silver to hedge against potential losses in their other holdings. COVID-19 may be causing strife across economies and other financial markets, but gold is proving to be an excellent defense. ■

Price appreciation during the Covid-19 crisis

Data as of July 29, 2020
Source: Bloomberg