GOLD RALLIES IN TIME FOR MEMORABLE ANNIVERSARY

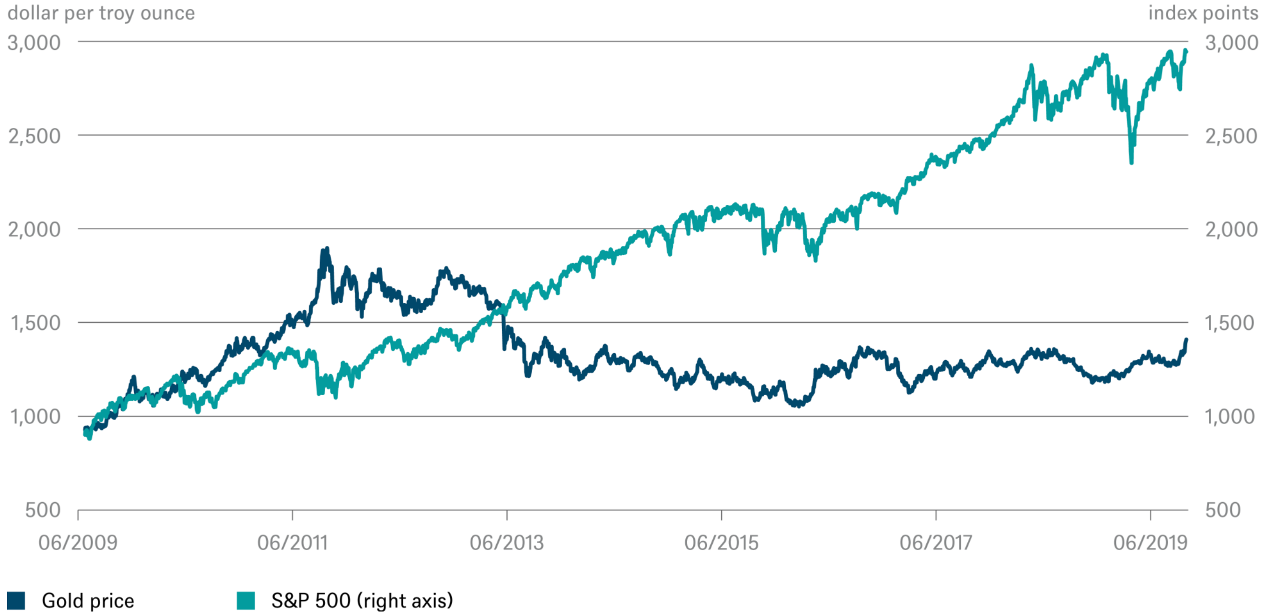
For the first time in six years, gold has risen past the $1,400 mark. Looking at a 10-year comparison with the S&P 500, however, it's only a small consolation.

Gold investors have had to wait more than six years for this day. After a strong spurt in June, the troy ounce of gold has broken through the $1,400 mark for the first time since September 2013. Such technical milestones are all the more important for gold investors as they have had to watch one of their favorite metals go nowhere for years. And this has been despite the fact that loose central-bank policy has driven up almost all other asset classes. And even though the central banks themselves have been large net gold buyers since 2010. And even though politics has become so much more unpredictable. And, finally, even though that self-proclaimed alternative safe haven, Bitcoin, has soared by over 200% just this year.

Gold investors must make do with the joy of a year in which the price has risen by about 10%. An important factor contributing to the recent rally is that synchronization with the real U.S. interest rate has been restored. The yield on 5-year inflation-linked U.S. government bonds (which is considered a proxy for the real U.S. interest rate) has fallen from 1.15% to 0.17% over the past year. As a result, the opportunity cost of owning gold has fallen significantly.[1] And with their recent, surprisingly dovish announcements, the European Central Bank (ECB) and the U.S. Federal Reserve (the Fed) have helped to ensure that the opportunity cost should stay low for the foreseeable future. Once again the "lower-for-longer" mantra is being sung loudly.

But we believe "lower for longer" might also be a description of gold's longer-term performance. The yellow metal does not look as shiny now when you consider it is still more than a fourth down from its 2011 peak. And what's more, exactly ten years ago gold and U.S. stocks had met at the same level: at the beginning of July 2009, a troy ounce of gold was worth $927 and the S&P 500 stood at 923 index points. Since then, as our "Chart of the Week" shows, U.S. equities have risen by 220% - excluding dividends - to reach almost 3000 index points. Gold, on the other hand, has risen by only 50% to currently a little over $1,400. Nor can it be said that the lower gain was compensated by higher security, which is what gold owners usually look for. – at least, if you measure uncertainty in volatility. Taking volatility as a measure for uncertainty, the two asset classes do not differ much from each other in the long run. Lower returns with the same risk – who might want that? Perhaps those investors listening to the central banks citing recession risks as the reason for their latest turnaround in interest rates. Central banks would certainly not want to cut interest rates without sufficient grounds to do so, would they?

[1] As gold does not offer a regular yield, the interest income that investors are missing out on by not investing in other (interest-bearing) investments is considered an opportunity cost. For gold investments, the real interest rate is considered the appropriate measure for opportunity costs.



Sources: Refinitv, DWS Investment GmbH as of 6/26/19

GLOSSARY

Bitcoin
Bitcoin is the pioneer amongst the cryptocurrencies.

Central bank
A **central bank** manages a state's currency, money supply and interest rates.

Dividend
A **dividend** is a distribution of a portion of a company's earnings to its shareholders.

Dove
Doves are in favor of an expansive monetary policy.

European Central Bank (ECB)
The **European Central Bank (ECB)** is the central bank for the Eurozone.

Inflation
Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Real
In economics, a **real** value is adjusted for inflation.

Recession
A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

S&P 500
The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

U.S. Federal Reserve (Fed)
The **U.S. Federal Reserve**, often referred to as **"the Fed"**, is the central bank of the United States.

Volatility
Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	05/14 - 05/15	05/15 - 05/16	05/16 - 05/17	05/17 - 05/18	05/18 - 05/19
Bitcoin	-61.6%	121.1%	338.2%	229.7%	12.8%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 6/27/19

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