

## GOLD WAS SHINING AGAIN

### Why a position in gold might make sense

The gold price managed to recover during the fourth quarter of 2018, when so-called risky assets like stocks and corporate bonds suffered, while so-called safe-haven instruments like U.S. Treasury bonds performed well. Searching for factors that explain gold-price moves, several things come to mind: for example, the gold price correlates well with real yields on U.S. government bonds, as we last discussed in July 2017 (see [Chart of the Week 7/28/17](#)). As demonstrated, gold prices tend to rise when real yields fall, and vice versa.

In this week's "Chart of the Week", we take a look at holdings in gold exchange-traded funds (ETFs). Not unexpectedly, the rise in holdings of these instruments went hand in

hand with a rising gold price. After a peak at the beginning of this decade, both stocks and gold prices went into reverse. From this perspective, current holdings in gold ETFs may even point to some upside potential for the gold price. But there are more arguments in favor of gold, as Christian Hille, Head of Multi Asset at DWS, explains. The portfolios he oversees hold gold mainly for diversification reasons. Last December's moves lend additional evidence to this argument. In the current environment, which is characterized above all by political risks that are difficult to calculate, the role of gold may be all the more important. In addition, the opportunity costs for holding the yellow metal remain low in view of the relatively low yields compared to history.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/17/19

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## GLOSSARY

### Corporate bond

A **corporate bond** is a bond issued by a corporation in order to finance their business.

### Correlation

**Correlation** is a measure of how closely two variables move together over time.

### Diversification

**Diversification** refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

### Exchange-traded fund (ETF)

An **exchange-traded fund (ETF)** is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

### Real

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

### Treasuries

**Treasuries** are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

### Yield

**Yield** is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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