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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **October 30, 2024**


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Last week's S&P 500 Index: -0.9%

Golden?

Key takeaways

- Today, there are a number of factors that we see coming together to help push the price of gold higher.
- We favor broad commodity exposure for all types of long-term individual investors.

The price of gold has been on a mostly steady climb higher since late 2022 for a variety of reasons. Many investors who have been paying attention to financial and commodity markets since the early 1970s may think of the price of gold as being closely tied to inflation and inflationary expectations as well as a perceived safe haven in times of uncertainty. However, there is more to the story than history might suggest.

Today, there are a number of additional factors that we see coming together to help push the price of gold higher. Our analysis suggests the price of gold will likely rise from the current $2,740 price at the time of this writing up into the $2,800 to $2,900 range by year-end 2025. Let's examine a few of the reasons why we believe gold has more upside over the next 14 months or so.

Historically, investors bought gold as a potential hedge against inflation. This might still be the case, but the price of gold has risen more than 60% since the Consumer Price Index (CPI) peaked in June 2022 at a year-over-year rate of 9.1% and subsequently fell to 2.4% last month. Gold has been seen as a store of value for centuries and has attracted investor attention whenever the purchasing power of the dollar has been dragged down by inflation, not that we see any serious decline in the dollar's value — in fact, we see more strength next year and stability into the future.

Geopolitical uncertainties have also been reasons why investors sometimes flock to gold. Many investors today are concerned about tensions in the Middle East and eastern Europe as well as the heightened frictions between China and Taiwan. The U.S. presidential race also represents an uncertainty for the global economy as trade and tariff policies differ greatly between the two major party candidates.

Another possible reason for an increase in the price of gold is central-bank purchases as they move to diversify their reserves by holding fewer U.S. dollars. In decades past, prior to the introduction of the euro currency in January 1999, global central banks held most if not nearly all of their reserves in dollars. As the euro has gained traction and established itself as a legitimate global currency, many central banks have diversified reserves by purchasing and holding euros. According to the International Monetary Fund's (IMF) latest Currency Composition of Official Foreign Exchange Reserves (COFER) report, the U.S. dollar in the first quarter of this year made up 58.9% of global central-bank reserves, down from the 71% share held in 2001. Gold accounted for 15% of total reserves.

Many pension funds and insurance companies carry a broad commodity exposure — not just gold — in part as a potential hedge against inflation and political risk globally. We favor that broad commodity exposure for all types of long-term individual investors, too. The recent ups and downs in fixed-income returns, largely surrounding inflation, keep us favorable on commodities.

Risk considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in **gold or other precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry.

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