



Go, go, gold!

The yellow metal has room to run despite its spectacular performance this year...

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Unless you've led a particularly sheltered life you will have heard of the famous racing circuit at Le Mans. The first ever Grand Prix was held there in 1906, and the 24 hour Le Mans is the oldest active endurance racing event in the world.

Britain has a long and illustrious historical relationship with the race, having competed since the first endurance race was held in 1923, when a single Bentley stood against a field of twenty French cars – going on to win the trophy the following year.

I am firmly convinced, having just returned by car from a holiday in southern France, that the reason Le Mans was chosen as a venue is because had the competition been held any further south, not even endurance-racing obsessed petrolheads could be bothered to drive that far and even if they did their cars would surely fail before they got there.

This thought occurred to me as my exhausted car limped out of the ferry at Portsmouth, flopped onto the quayside and gently expired. Having changed horses and left the poor beast at the mercy of the garage, I was delighted upon finally reaching my desk on Monday to learn that it was my turn to write the lead story for this weekend's edition.

I thought for a while about writing something witty and erudite which riffed on the things I'd learned during my time off. France is impossibly large and its payage network is over-rated. I have an almost infinite capacity for Provencal rose. You can never have too many barbecues, and those anti-immigration rioters looked meagre, tired and rather forlorn from a long way away, especially when they started looting the local Greggs.

None of this seemed particularly witty, though, and is even less so relevant to investors, so instead I decided to write about gold.

The yellow metal is in the news a lot at the moment, having risen above \$2,500 an ounce – a price beyond which it has only ever passed once, in the immediate aftermath of Covid in 2020.

Gold's high octane performance has been driven by a number of factors – the 'new normal' of geopolitical, economic and fiscal uncertainty is one of them, more potent is the impact of falling rate expectations, and structural drivers such as the fact that central banks around the world have begun to increase their allocation toward the metal.

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While returns on a scale like those we've seen already are unlikely, analysts believe there is more in the tank for gold, regardless of who wins the US election.

"Many of the structural bullish drivers – including U.S. fiscal deficit concerns, central bank reserve diversification into gold, inflationary hedging and a fraying geopolitical landscape – will likely remain in place regardless of the U.S. election outcome this autumn," said Natasha Kaneva, Head of Global Commodities Strategy at J.P. Morgan.

JPM forecasts an average price of \$2,600 in the first quarter of next year, and Callum Stokeld, who regular readers may remember was once a child of this parish and is now investment funds analyst at Panmure Liberum, thinks a number of structural drivers provide long term support for further gains.

He says: "China's determination not to accumulate USD assets as reserves, and to pursue a policy of prioritising production and an expansion of supply-



side capacity while seeking economic growth through external demand, offers a huge structural demand source for gold, particularly as the Belt-and-Road initiative loses steam as a 'recycling-of-capital' overseas source.

“Bitcoin or other cryptos could be considered other outlets, as could the Yen, but all are antithetical to the political interests of the CCP, and gold offers the path of least resistance to the hidden hand of the wider economy. Some sort of optical rapprochement with the US will doubtless be in all parties' interests in 2025, and some headwinds to the gold price could reasonably emerge as a result. But the direction of travel is set.”

Callum shares the view held by the analysts here at Kepler that the burgeoning wealth of India's massive population is a key driver of the gold price over the longer term. Gold remains the preferred store of value for the vast majority of Indian families, who exchange gold in the form of jewellery and small bars especially at weddings and festivals. Demand for gold among ordinary Indian consumers has faltered in recent months as the price has soared, but the exchange of gold is a deeply ingrained cultural habit, and as long as Indians are getting richer, their appetite for – and ability to afford – gold will remain in place.

Callum says: “Add in the structural growth of an Indian and Indonesian middle-class that view their equity markets as at least partially as permissible gambling, and solid demand for a tangible, and globally recognised, asset remain.

“Timing the beneficiaries of the cycle will be tricky – the pervasive influence of passive means many if not most constituents are ex-index, so areas of value realisation will likely be erratic and unpredictable. But capital discipline at a sector level means trusts such as **BlackRock World Mining (BRWM)**, **CQS Natural Resources (CYN)**, and **Golden Prospect Precious Metals (GPM)**, which offer exposure to these different subsets of the market, look set to enjoy a fundamental tailwind in the near to medium term.”

Our analysts met the team at BRWM this month. The trust has a significant (13%) exposure to gold miners which have not performed particularly well despite the strength of the metal they extract from the ground. This could be due to the higher costs of mining in an inflationary environment and the higher cost of debt for relatively leveraged companies, which makes this remarkable divergence very interesting for those who share our view that inflation and interest rates are heading south. You can read the **note we published on the trust here**.

Next month we will be publishing our first note on Golden Prospect Precious Metals. If you would like to be alerted to that note when it appears online, **please click here**.



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