

Perspective from
Global Index
Portfolio Management

Unearthing the appeal of responsibly sourced gold

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Key takeaways:

- **Gold prices soar**, reaching an unprecedented high in early February, surpassing US\$2,900 bolstered by safe-haven demand amid persistent inflation concerns.
- **Gold as a reliable diversifier**, stands out as a robust hedge against economic uncertainty, offering low correlation to traditional assets for enhanced portfolio diversification.
- **Gold as good**, a closer look at efforts to responsibly source gold and how this has sparked a new category of physical gold ETFs.

Gold prices surged in time for Valentine's Day this year, breaking through the significant US\$2,900 mark for the first time. Fueled by safe-haven demand following President Donald Trump's aggressive tariff talk—which is expected to extend to steel and aluminum imports in March—the rally is bringing more investor attention to the precious metal.

Investors continue to view gold as an effective hedge against inflation, currency fluctuations and economic instability as well as a compelling portfolio diversifier given its historically low correlation to traditional stocks and bonds.

Gold's Historically Low Performance Correlation with Equity and Bond Markets

Correlations Since 2000 (in USD)

	LBMA Gold Price P.M.	S&P 500 Index (TR)	Bloomberg US Aggregate Bond Index (TR)	MSCI EAFE Index (NR)	FTSE EM Index (PR)	S&P/TSX Composite Index (TR)
LBMA Gold Price P.M.	1.00	—	—	—	—	—
S&P 500 Index (TR)	0.04	1.00	—	—	—	—
Bloomberg US Aggregate Bond Index (TR)	0.30	0.13	1.00	—	—	—
MSCI EAFE Index (NR)	0.15	0.87	0.19	1.00	—	—
FTSE EM Index (PR)	0.26	0.73	0.17	0.83	1.00	—
S&P/TSX Composite Index (TR)	0.28	0.82	0.17	0.84	0.81	1.00

Source: Morningstar Direct as of January 31, 2025. The LBMA Gold Price is administered independently by ICE Benchmark Administration (IBA). P.M. is based on the afternoon price. The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The MSCI EAFE Index is an equity index, which captures large- and mid-cap representation across developed market countries around the world, excluding the United States and Canada. The FTSE Emerging Markets (EM) Index provides investors with a comprehensive means of measuring the performance of the most liquid large- and mid-cap companies in the emerging markets. The S&P/TSX Composite Index is the headline index for the Canadian equity market. Total Return (TR) encompasses the full return on an investment, including both price changes and any income generated like dividends; while Net Return (NR) is the total return after subtracting any fees or expenses associated with the investment; and Price Return (PR) only considers the change in the asset's price, ignoring income. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future performance.** See www.franklintempletondatasources.com for additional data provider information.

Furthermore, gold's diverse sources of demand naturally contribute to its resilience as an asset that can deliver solid returns in a variety of market conditions. This resilience is twofold. The price of gold, as a reliable store of value, tends to be driven up by counter-cyclical investment during rocky markets. Meanwhile, during stronger economic environments, pro-cyclical consumer demand for gold, used in an array of industries, can support its performance.

The fact that gold is mined across many diverse geographies can help mitigate volatility. Moreover, gold's trading volumes averaged about US\$227 billion per day in 2024, making the market more liquid than some major markets like the Dow Jones Industrial Average.¹ And even though Federal Reserve Chair Jerome Powell recently likened bitcoin, a.k.a. "digital gold" to the bullion, gold still reigns as a store of value that does not tend to experience the same dramatic swings as cryptocurrencies. We do, however, believe that crypto's own unique scarcity, utility and potential can complement an investor's portfolio.

Recent advancements in responsible sourcing have also enhanced gold's appeal

Environmental and social issues, including high levels of pollution, have historically plagued the gold mining industry. But the London Bullion Market Association (LBMA) has been at the forefront of efforts to improve the industry's sustainability credentials in recent years through responsible sourcing.

The LBMA's program requires approved refiners to demonstrate their commitment not only to environmental protection but also to combating money laundering, terrorist financing and human rights abuses. This ensures that the gold traded on the London market is conflict-free and ethically sourced, protecting the integrity of the global gold supply chain.

Artisanal and small-scale mining (ASM) is a crucial sector within the gold industry, employing over 40 million informal laborers across 80 countries.² While ASM can promote economic development in challenged communities, it also poses a number of other risks. A primary concern is the release of highly toxic mercury, which occurs during the process of extracting gold. To address these issues, the LBMA has developed new methods for ASM sourcing that aim to reduce greenhouse gas emissions and improve mining productivity.

The convenience of gold exchange-traded funds (ETFs)

Before the introduction of exchange-traded products, investing in gold was often cumbersome and costly. Physical gold required secure storage and high insurance premiums, while derivatives and futures contracts were primarily accessible only to large institutional investors. The launch of the first physical gold ETF in the United States in 2004 changed this landscape, offering a low-cost, efficient way to invest in gold bullion without the need for physical storage or the complexities of derivatives.

Today, there are 33 gold ETFs in the United States, with total assets of US\$161 billion.³ Just in the last year, physically backed global gold ETFs traded an average of US\$2 billion per day.⁴

Within the physical gold ETF space, offerings that incorporate the LBMA's program have emerged. These ETFs provide exposure to a resilient and low-correlation asset, while supporting a responsible gold mining ecosystem that adheres to rigorous environmental and social standards. By choosing to invest in sustainable gold, investors can contribute to a more ethical and sustainable global gold supply chain, while reaping the financial benefits of this timeless asset.

Endnotes

1. Sources: Bloomberg, Bank for International Settlements, International Capital Market Association (ICMA), Nasdaq, World Gold Council.
2. Sources: 2020 State of the Artisanal and Small-scale Mining sector report. World Bank.
3. Source: Morningstar Direct, as of February 10, 2025.
4. Sources: Bloomberg, Nasdaq, World Gold Council. Based on average daily trading volume from January 1, 2024, to December 31, 2024. Gold liquidity includes estimates of over-the-counter (OTC) transactions and published statistics on futures exchanges and gold-backed exchange-traded products.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

Commodity-related investments are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

Blockchain and cryptocurrency investments are subject to various risks, including inability to develop digital asset applications or to capitalize on those applications, theft, loss, or destruction of cryptographic keys, the possibility that digital asset technologies may never be fully implemented, cybersecurity risk, conflicting intellectual property claims and inconsistent and changing regulations. Speculative trading in bitcoins and other forms of cryptocurrencies, many of which have exhibited extreme price volatility, carries significant risk; an investor can lose the entire amount of their investment. Blockchain technology is a new and relatively untested technology and may never be implemented to a scale that provides identifiable benefits. If a cryptocurrency is deemed a security, it may be deemed to violate federal securities laws. There may be a limited or no secondary market for cryptocurrencies.

ETFs trade like stocks, fluctuate in market value and may trade above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. ETF shares may be bought or sold throughout the day at their market price on the exchange on which they are listed. However, there can be no guarantee that an active trading market for ETF shares will be developed or maintained or that their listing will continue or remain unchanged. While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

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