Time for investors to hike exposure to gold: Experts

BY PRASHANT MAHESH, ET BUREAU | MAR 26, 2019, 08.00 AM IST

Mumbai: Investors could boost their gold holdings after the yield curve in the US inverted late last week for the first time since 2007, which is considered a harbinger of a recession. Gold is seen as a safe asset in times of uncertainty.

“There is a macroeconomic slowdown. With the yield curve now inverted, it is a good signal to accumulate gold,” says Kishore Narne, associate director (commodities), Motilal Oswal. Narne expects domestic prices to touch Rs 38,000 per 10 grams over a 12-month period. Domestic gold prices were at Rs 32,700 per 10 grams on Monday.

Analysts said with the 10-year US treasury rates falling below threemonth rates, the chances of recession in the world’s biggest economy have gone up, which makes gold attractive.

Also, the US dollar and gold move in opposite directions; whenever the dollar weakens, gold prices rise and vice versa. A reason for this is when the dollar starts losing value, investors look for an alternative safe asset, which is gold.

Narne said gold prices have been consistently closing in the green for the past three weeks primarily on back of weakness in the dollar and increased investment demand following uncertainty in Brexit and on expectation of slowing global growth.

Muted Returns

Gold	Return (%)
1 year	3.49
3 year	1.65
5 year	0.24
10 year	6.3

Returns annualised   Source: Value research

Data from the US last week showed manufacturing activity unexpectedly cooled in March and businesses across the eurozone performed much worse than expected this month, indicating there are concerns about global growth.

Poor returns from the yellow metal and high returns from equity markets resulted in many investors moving out of gold in the past five years. Over the past five years, returns from gold have been more or less flat, while the S&P BSE Sensex gave 11.37 per cent returns in this period. Wealth managers believe its investors could allocate 5-10 per cent of their portfolio to gold.

“The US has chosen to take a conservative stand on interest rates, which means the economy is slowing down a bit. Gold finds a place in portfolios in such times,” says Vishal Dhawan, founder, Plan Ahead Wealth Advisors. He advises conservative investors to inch up their gold allocation to 10 per cent of their portfolios spread out over a period of three months.

Instead of buying physical gold, wealth managers suggest the best way for investors to raise exposure to the asset class is through sovereign gold bonds (SGBs) issued by the government of India or through gold ETFs.

SGBs score over ETFs as they pay a small interest of 2.5 per cent above the price movement. Gold ETFs deduct their expense ratios from the returns they make from the movement in gold prices. SGBs have a tenure of eight years, with a lockin of five, but can be bought or sold on the stock exchange, with some of them available at a discount given its low liquidity.