Will gold stand up as a safe investment bet in the future?

By Fred Razak

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Gold hit a low of $1,469 in mid-March last year before appreciating to a value of around $2,000 an ounce in August. This was the result of two catalysts.

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Firstly, it was a reactionary move, because the rest of the market was being bought out. We saw stocks – specifically Fang (Facebook, Apple, Amazon, Netflix and Google) – go to record highs in August. As a result, investors tried to hedge their bets by keeping some of their money in gold.

Secondly, investors were very concerned at this stage that the markets were going to be in an inflationary environment. Besides that, investors, by and large, wanted to stay safe. So, they were taking money out of equities, despite the fact that they were at record highs and putting it into gold as well.

Gold was no less affected by what was happening in the markets in early 2020. It lost roughly $300 in value, going down to around $1,450. The reason for that is that gold is historically viewed as the safe haven investment in an economic downturn. But the pandemic was not necessarily an economic downturn, so much as a general panic in the markets, which also affected gold.

Our monetary system is based on gold but as Warren Buffet famously said, "[Gold] gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Keeping inflation in check

Yet even in ancient times, extreme importance and value has been ascribed to gold – initially because of jewellery and gold deposits. In more modern times, countries need gold reserves to back up their economy. The reason gold is seen as a safe bet is that it is historically understood to avert inflationary concerns.

Gold has sold off about $250 lower than its August high of $2,000 recently. And one of the reasons for that is because the central banks are doing a fantastic job of keeping inflation in check, stopping it from spreading like wildfire. With inflationary concerns having been curbed and the ‘safe bet’ being sold off as a result, we’re seeing the gold price drop again.

The threat of cryptocurrencies

We are entering a very interesting period in our history, where, for the first time, gold is trying to stay the course in a changing market. It’s looking like cryptocurrencies are gradually becoming more accepted. The wave of cryptocurrencies may see gold having to recreate itself. And it may shift from being the international standard by which we value things. Could the entire global economy be undergoing a historic change for the long term? It’s uncertain at this stage but will definitely be interesting to watch.

Ultimately, the most important factor that affects the price of gold remains inflation. Traditionally speaking, gold and the indices have an inverse relationship – one goes up and the other goes down. The next two to three years are going to be very telling in terms of the effects of the pandemic in the long-term. It is going to be quite tricky for central banks to stave off inflation for possibly another three to five years. The market landscape is changing because of Covid-19 and gold is getting a lot of competition from other potential safe haven currencies – like cryptocurrencies. While it will probably still remain in play for a while, we may see gold’s fortunes wane of the next few years.

ABOUT THE AUTHOR

Fred Razak is the chief trading strategist from CMTrading