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"GOLD GLITTERS EVEN IN THE MUD"

- The world's major economic and political balances have been disrupted
- To secure their future, emerging countries are piling up gold
- Retail investors have not yet taken part in this profitable theme
- And gold miners seem to have been completely neglected

CHART OF THE WEEK: "Retail investors are not (yet) chasing gold"

Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

Half commodity, half currency, gold is seen above all as the ultimate safe-haven asset. Its usefulness in portfolio construction is unparalleled. With a low or even negative correlation with the other major asset classes, gold helps to improve the efficient frontier for optimal allocation: for the same level of risk, the return on a portfolio holding gold will be higher. Despite this, and on the pretext that it delivers neither dividends nor coupon, gold is regarded by investors as a "barbarous relic". For 98% of investment advisors, the gold weighting in portfolios is less than 5%, and for 71% of them it is even less than 1% (see Fig. 2). Since October 2022, this underexposure has been costly, as the price of the yellow metal has soared by 78%.

There are a number of factors behind the recent powerful bull run in the ounce of gold:

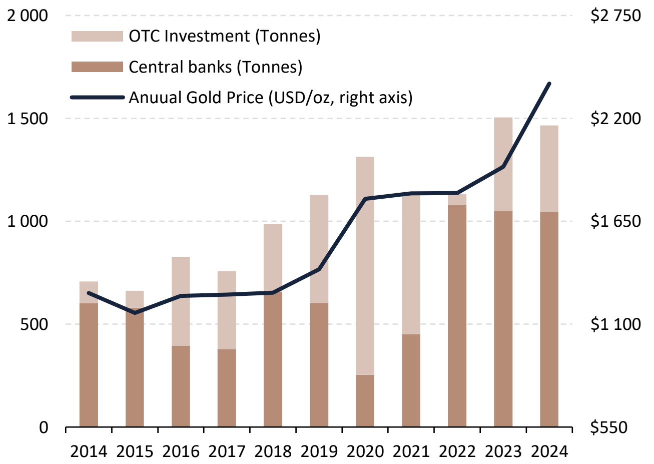
- **Geopolitical tensions have increased.** The war in Ukraine, which has been going on since 2022, is weighing on economic growth and political stability in Europe. With the election of Donald Trump and the likely reduction in military aid to Kiev, Western support is in danger of running out of steam. A little further south, the conflict between Israel and the Palestinian Hamas and the Lebanese Hezbollah could end up setting the whole region ablaze. The latest comments by the American President, who wants the United States to take "control of the Gaza Strip" to make it the "riviera of the Middle East", have exacerbated these fears. Much further east, tensions between China and Taiwan, with frequent military manoeuvres and a hardening of political rhetoric, raise fears of a wider conflict involving the United States. As is often the case when tensions rise, investors turn to gold as a safe haven.
  In the very long term, it will be other types of uncertainty, such as climate change and the monetisation of public debt, that will drive up the price of an ounce of gold.

- **Central banks in emerging countries have accumulated large stocks of gold.** Since the embargo on Russia's foreign exchange reserves, emerging countries such as China, India and Turkey, as well as Eastern European countries such as Poland, the Czech Republic and Hungary, have been seeking to ensure their financial stability. They are considering the possibility of losing access to the dollar and the SWIFT system for their international financial transactions. Between 2022 and 2024, central bank purchases tripled, topping 1,000 tonnes of gold annually, an all-time record (see Fig. 3). The volumes are such that they have given a decisive boost to the upward trend in the price of an ounce of gold. There is nothing to suggest that their desire to reduce their dependence on the US dollar will fade any time soon.

Fig. 2 - Weight of gold in asset allocation

Source: BofA, Altitude IS

Fig. 3 - Gold buying, central banks and OTCs



Source: World Gold Council, Altitude IS

- **Central banks have eased their monetary policies.** After ceasing to raise key rates in 2023, financial institutions began to lower the cost of money in 2024. All other things being equal, the advantage of holding a bond that pays a coupon over an ounce of gold that pays nothing is diminishing.

- **The rise of Artificial Intelligence (AI) has increased the demand for "technological" gold.** The yellow metal is used in electronic components because of its conductivity and resistance to oxidation. The acceleration in the production of advanced chips, particularly those used in data centres and cutting-edge AI applications, has increased the use of gold. In addition, the increased capacity of cloud servers has necessitated increased production of integrated circuits, where gold plays a key role in connectors and precision contacts. Finally, the development of electric vehicles and advanced sensors in the automotive industry, particularly for electrical contacts in batteries and on-board communication systems, has also boosted gold consumption.

The factors needed to justify an (even) higher gold price do exist:

- **Adjusted for inflation, the price of an ounce has not yet reached its previous all-time high.** To regain its purchasing power of 20 January 1980, gold would have to trade at $850 in 1980 dollars, or $3,452 in 2025 dollars (see Fig. 4). At the time, the Iranian revolution of 1979 had triggered the second oil crisis. Interest rates were lower than inflation, which exceeded 13% in the United States. In addition, geopolitical instability, marked by the hostage-taking at the US embassy in Tehran and the Soviet invasion of Afghanistan, amplified demand for safe-haven assets. This atypical environment made gold more attractive than government bonds. It also encouraged speculation, particularly by the Hunt brothers, who were trying to control the silver market, contributing to a run on precious metals. It was only when investors realised that Paul Volcker, the then Chairman of the Federal Reserve, was going to raise interest rates sharply, above 17%, that the attraction of gold finally waned.

Fig. 4 - Inflation-adjusted gold price

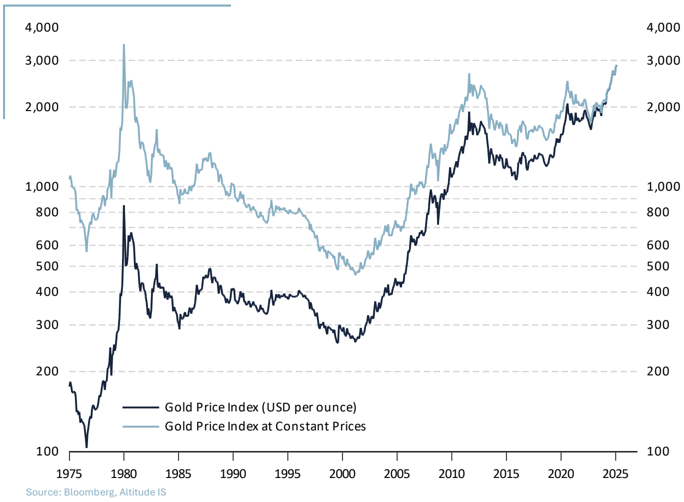
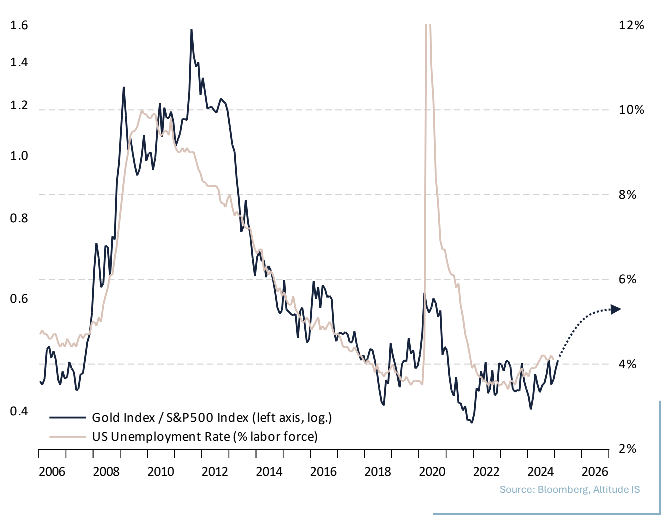


Fig. 5 - Gold/S&P500 ratio



- **Gold appreciates relative to equities when the unemployment rate rises.** If the ratio of jobseekers were to rise above 5% of the working population, as our econometric models anticipate, then gold's relative performance against equities could become very positive. Given the past correlation between these two variables (see Fig. 5) and assuming that the S&P 500 remains close to its current level, gold could exceed $3,300 an ounce.

- **Of the three elements of support mentioned in this section, the last is clearly the most powerful: retail investors have not yet taken an interest in this theme.** This is evidenced by the fact that the volume of gold held by index funds (ETFs) has fallen by 25% since its peak in October 2020. As stock market volatility increases, retail demand for gold will grow. To catch up, private investors would need to buy an additional 90 million ounces of gold (see Chart of the Week). This would represent 2,800 tonnes of gold, or 75% of the world's annual production. Unless central banks resell what they have bought over the past three years - an unlikely scenario - the imbalance between supply and demand will inevitably lead to higher prices.

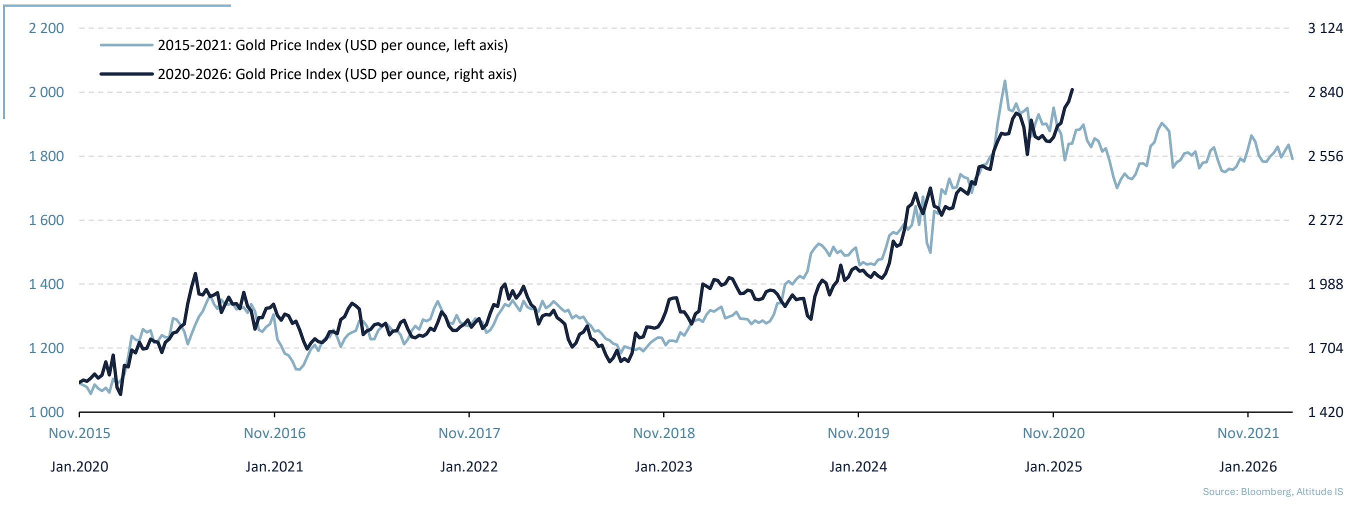
Despite the strong momentum in the gold price and the reservoir of favourable flows, **there are risks that could lead to a pause, or even a temporary but brutal retracement:**

- **A stronger-than-expected increase in job creation in the United States.** A buoyant labour market could prompt the Federal Reserve cut interest rates more slowly or less sharply than expected. By allowing investors to obtain relatively high yields, the United States would make its bonds more attractive than gold, which generates no yield.

- **Financial assets rarely appreciate in a straight line.** Impressive as it may seem, there is nothing exceptional about the rise in the price of gold. A similar sequence already took place in 2020 (see Fig. 6). Back then, the global Covid-19 crisis, coupled with the ultra-accommodative monetary policies of central banks, propelled gold to USD 2,000 an ounce. Today, the explanatory factors are different, but the dynamic is comparable. It would be even more so if the price of an ounce were to oscillate around USD 2,600 over the next twelve months.

- **A major technical retracement.** Traders have never held so many speculative long positions since the data were first recorded. Paradoxically, they are very vulnerable to a long squeeze. This phenomenon occurs when the price of an asset falls sharply, forcing traders who had bet on the price to rise to close their positions in order to control their risk. Closing these positions leads to an increase in supply, putting downward pressure on prices and creating a 'snowball' effect. Today, this risk is very high: if the gold price were to fall, it would fall sharply.

Fig. 6 - Comparison of the last two gold cycles



The decorrelation between the gold price and the dollar exchange rate raises questions (see Fig. 7). Should one of them fall to close the gap? In the first scenario, gold would return to $1,800 an ounce Alternatively, the dollar would trade at 1.33 to the euro. In a third and final option, the most likely, the gap might never be closed. This would mean that the relationship between the two 'currencies' has broken down, as happens regularly. It is important to remember that the long-term trend in gold is upwards, while the trend in the euro/dollar exchange rate is relatively stable.

If gold shines brightly, silver is simply dazzling. It stands out as an attractive alternative for investors looking for leverage. Gold's "little brother" has some unique characteristics that make it attractive, not least because of its industrial use and very high volatility. The Mexican mining company Fresnillo regularly points out that strong demand for silver is being fuelled by the development of 5G, solar energy, automobiles, nanotechnologies and, more generally, by the acceleration of green infrastructure projects around the world. Furthermore, with the price ratio between the two precious metals historically low (see Fig. 8), investors are expecting silver prices to catch up. However, unlike gold, silver is much more exposed to economic cycles. During a recession, industrial demand for silver falls, leading to strong underperformance. This risk could resurface.

Fig. 7 - Impact of the dollar on the price of gold

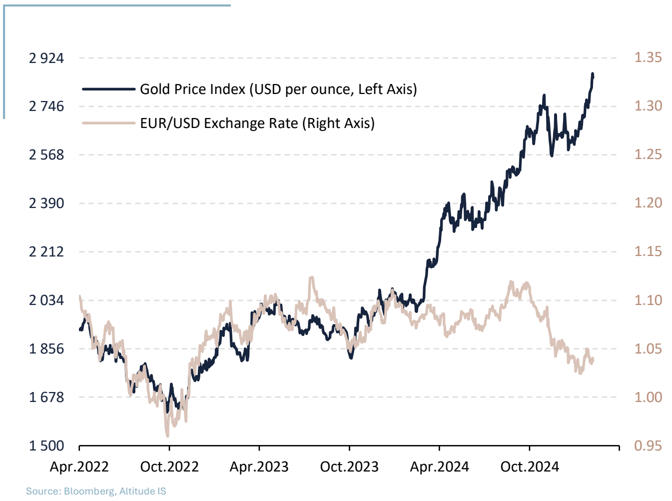
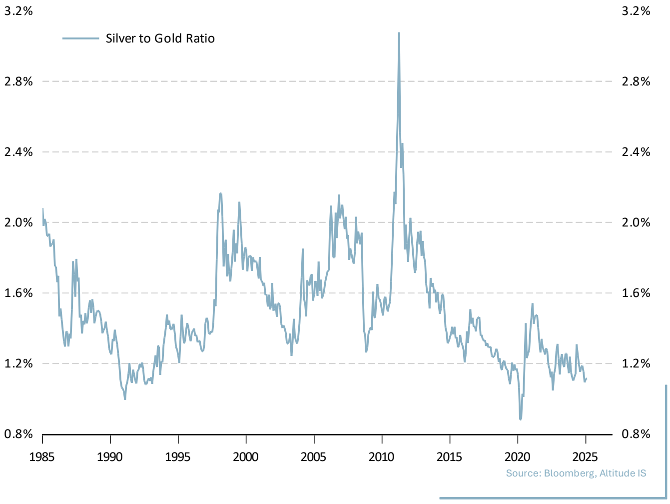


Fig. 8 - Silver price against gold



In the two years since gold prices soared, **the shares of gold miners such as Newmont, Barrick Gold, Agnico Eagle and Franco Nevada have failed to outperform the US S&P 500 index** (see Fig. 9). Yet it is a truism to say that mining companies are benefiting from the rising price of the yellow metal. Despite rising production costs, their margins have continued to grow, to the point where they are now the highest in history (see Fig. 10).

Fig. 9 - Relative performance of gold mines

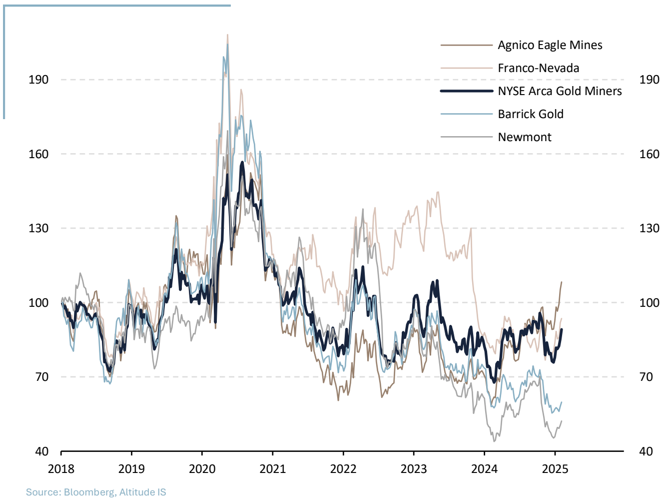
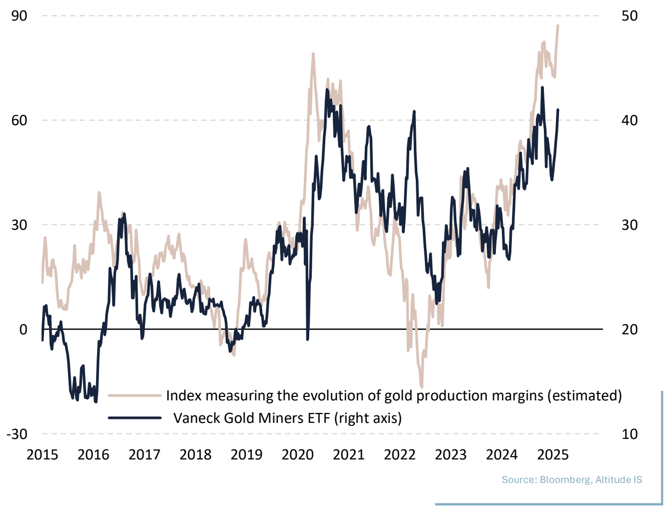


Fig. 10 - Production margins & gold mines



Based on the latest available data, the average cost of producing an ounce of gold is estimated at $1,450. It has recently risen due to maintenance operations and inflation in subcontracting costs. In addition, the scarcity of new gold discoveries is forcing mining companies to invest more in the exploration and exploitation of less rich deposits. S&P Global has warned that global gold production could peak by 2028, which could exacerbate supply tensions. Despite this, production costs only represent half the selling price. So even if energy prices were to rise, mining companies would continue to generate substantial profits.

The 'fundamental cost' of gold is estimated at $2,300 an ounce, well below the current figure of $2,850. It is calculated on the basis of the average production cost of gold mines, plus a reasonable margin for producers and sometimes other factors such as inflation or structural demand. There will come a time when investors remember that the outlook for gold mining is very positive, and that stock prices still have a long way to go to make up the ground lost in 2024.

Conclusion:

The world's major balances are changing, whether in economic, monetary, geopolitical or even climatic terms. These upheavals generate uncertainty. All investors - central banks, institutional investors, traders and soon, retail investors - will agree on the Lithuanian proverb: "gold glitters even in the mud".

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	869.4	55.91	0.1%	2.7%	3.4%	18.0%	22.8%
USA (S&P 500)	6 026	51.27	-0.2%	2.1%	2.5%	25.0%	26.3%
USA (Dow Jones)	44 303	54.08	-0.5%	4.2%	4.2%	15.0%	16.2%
USA (Nasdaq)	19 523	48.44	-0.5%	0.2%	1.1%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	544.2	68.83	0.5%	5.8%	7.9%	10.2%	19.5%
UK (FTSE 100)	8 701	67.79	0.3%	5.6%	6.5%	9.6%	7.7%
Switzerland (SMI)	12 593	71.57	0.0%	6.4%	8.6%	7.5%	7.1%
Japan (Nikkei)	38 801	45.60	-2.0%	-3.2%	-2.8%	21.3%	31.0%
Emerging (MSCI)	1 108	63.10	1.4%	2.7%	3.2%	8.0%	10.2%
Brasil (IBOVESPA)	124 619	52.67	-1.2%	2.9%	3.6%	-10.4%	22.3%
Mexico (IPC)	52 818	66.96	3.1%	5.6%	6.8%	-11.0%	22.4%
India (SENSEX)	77 232	52.54	0.5%	-0.3%	-0.2%	9.6%	20.3%
China (CSI)	3 902	56.78	2.0%	2.7%	-0.9%	18.2%	-9.1%
Com. Services (MSCI World)	133.7	61.21	-0.7%	5.6%	7.1%	31.9%	38.1%
Cons. Discretionary (MSCI World)	431.4	49.46	-1.9%	2.8%	2.3%	20.7%	29.5%
Cons. Staples (MSCI World)	279.6	62.10	0.8%	3.7%	2.6%	4.7%	3.2%
Energy (MSCI World)	248.1	47.21	0.8%	0.3%	3.4%	2.9%	6.0%
Financials (MSCI World)	191.6	67.53	0.7%	6.1%	6.7%	25.1%	16.4%
Health Care (MSCI World)	369.6	59.71	-0.2%	4.5%	5.9%	1.5%	4.1%
Industrials (MSCI World)	390.3	52.75	-0.7%	2.9%	3.7%	12.8%	22.5%
Info. Tech. (MSCI World)	766.8	48.83	0.8%	-1.4%	-0.3%	31.9%	51.4%
Materials (MSCI World)	323.8	60.16	0.8%	5.7%	5.8%	-7.7%	12.6%
Real Estate (MSCI World)	977	57.99	1.1%	4.1%	2.7%	-0.4%	5.3%
Utilities (MSCI World)	163.7	51.36	-0.1%	1.6%	2.0%	12.9%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.64%	59.14	0.5%	1.5%	1.0%	-1.7%	5.7%
USA (Sovereign)	4.43%	60.03	0.4%	1.4%	0.9%	0.6%	4.1%
Euro Area (Sovereign)	2.71%	63.31	0.6%	1.3%	0.4%	1.9%	7.1%
Germany (Sovereign)	2.24%	60.61	0.6%	0.9%	0.0%	0.6%	5.6%
UK (Sovereign)	4.45%	62.35	0.4%	1.9%	1.2%	-3.0%	5.6%
Switzerland (Sovereign)	0.51%	54.56	0.1%	0.3%	-0.4%	5.4%	7.9%
Japan (Sovereign)	1.10%	28.53	-0.5%	-1.1%	-1.3%	-2.1%	0.9%
Emerging (Sovereign)	6.84%	67.12	0.5%	2.4%	1.8%	7.0%	11.0%
USA (IG Corp.)	5.30%	57.17	0.3%	2.0%	0.9%	2.1%	8.5%
Euro Area (IG Corp.)	3.10%	71.69	0.1%	1.6%	0.7%	4.7%	8.2%
Emerging (IG Corp.)	6.52%	71.99	0.4%	1.6%	1.2%	7.0%	6.7%
USA (HY Corp.)	7.25%	63.55	0.2%	1.3%	1.4%	8.2%	13.4%
Euro Area (HY Corp.)	5.58%	79.43	0.5%	1.4%	1.0%	8.2%	12.1%
Emerging (HY Corp.)	8.27%	68.32	0.4%	1.8%	1.9%	14.9%	13.1%
World (Convertibles)	454.0	58.98	0.3%	2.2%	3.1%	9.4%	12.3%
USA (Convertibles)	617.7	56.60	0.2%	2.1%	3.2%	10.1%	14.6%
Euro Area (Convertibles)	240.9	64.50	-0.1%	2.8%	3.5%	14.7%	7.3%
Switzerland (Convertibles)	248.5	54.90	0.3%	3.2%	3.2%	-10.5%	5.8%
Japan (Convertibles)	226.2	56.17	-0.5%	-0.2%	-0.2%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 635	82.03	n.a.	1.5%	1.5%	11.1%	7.8%
Macro	1 355	67.62	n.a.	1.0%	1.0%	7.3%	1.6%
Equity Long Only	2 231	71.12	n.a.	0.6%	0.6%	12.3%	15.9%
Equity Long/Short	1 709	80.41	n.a.	1.9%	1.9%	14.0%	7.7%
Event Driven	1 739	74.52	n.a.	0.9%	0.9%	8.6%	7.3%
Fundamental Equity Mkt Neutral	1 650	95.24	n.a.	0.1%	0.1%	12.2%	6.6%
Quantitative Equity Mkt Neutral	1 692	88.11	n.a.	1.7%	1.7%	9.8%	7.8%
Credit	1 610	96.53	n.a.	0.8%	0.8%	8.5%	8.1%
Credit Long/Short	1 629	100.00	n.a.	0.5%	n.a.	10.1%	11.2%
Commodity	1 874	89.29	n.a.	4.0%	4.0%	15.5%	7.3%
Commodity Trading Advisors	1 359	55.13	n.a.	1.3%	1.3%	7.8%	-3.6%
Volatility							
VIX	16.54	50.02	0.7%	-7.2%	-4.7%	39.4%	-42.5%
VSTOXX	16.65	52.00	8.4%	2.1%	-2.1%	25.3%	-35.0%
Commodities							
Commodities (CRB)	541.4	n.a.	-0.1%	1.3%	0.9%	5.1%	-8.0%
Gold (Troy Ounce)	2 889	n.a.	2.6%	7.4%	10.1%	27.2%	13.1%
Silver (Troy Ounce)	32.06	n.a.	1.4%	5.4%	10.9%	21.5%	-0.7%
Oil (WTI, Barrel)	71.00	n.a.	-2.1%	-4.4%	-1.0%	0.1%	-10.7%
Oil (Brent, Barrel)	74.29	n.a.	-3.5%	-4.6%	0.2%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	108.20	50.80	-0.7%	-1.3%	-0.3%	7.1%	-2.1%
EUR	1.0323	42.84	-0.2%	0.8%	-0.3%	-6.2%	3.1%
JPY	151.98	64.63	1.8%	3.8%	3.4%	-10.3%	-7.0%
GBP	1.2412	48.61	-0.3%	1.7%	-0.8%	-1.7%	5.4%
AUD	0.6277	53.38	0.8%	2.1%	1.4%	-9.2%	0.0%
CAD	1.4341	51.44	0.6%	0.6%	0.3%	-7.9%	2.3%
CHF	0.9109	43.60	-0.1%	0.6%	-0.4%	-7.3%	9.9%
CNY	7.3044	44.96	-0.8%	0.4%	-0.1%	-2.7%	-2.8%
MXN	20.556	48.88	-0.9%	0.8%	1.3%	-18.5%	14.9%
EM (Emerging Index)	1 742.0	55.89	0.0%	0.6%	0.8%	-0.7%	4.8%
XBT	97 276	n.a.	0.4%	2.8%	3.8%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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