

CIO Viewpoint

The case for holding gold

Investment Solutions

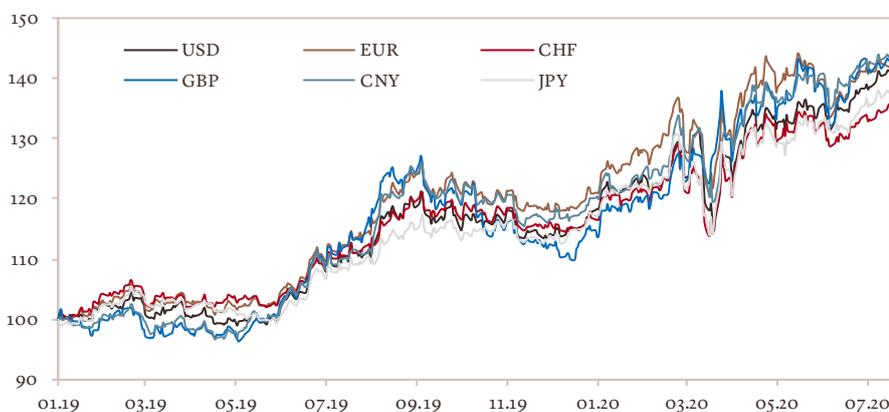
20 July 2020

The nature of the gold market has shifted through the Covid-19 pandemic as consumers spend less and investors increasingly turn to the precious metal as a portfolio hedge and diversifier.

As fears over Covid-19 intensified in mid-March and investors sought liquidity, gold prices temporarily correlated with other assets and fell. Once it was clear to investors that the world faced a global pandemic, prices rallied in line with central banks' massive financial asset buying programmes. Historically, the gold price may rise when the value of the dollar declines. But in recent months, the precious metal has risen across all major currencies (see chart 1) as global investment demand has grown through the pandemic. Gold has risen 15% year to date and traded at USD 1,801/oz on 17 July. That is near its historic close of USD 1,875.25/oz on 2 September 2011.

At these levels, why own gold in a portfolio? The combination of low-to-negative government bond yields plus a weakening US dollar, and most importantly, massive central bank accommodation, supports financial demand. This relationship between gold and real yields (see chart 2) has held for the last decade and recent central bank interventions have reinforced the case for holding gold as a portfolio diversification tool. In addition, as investors consider the pandemic's longer-term implications, they are likely to look harder at their exposure to sovereign debt and the solvency of indebted governments. This further increases the attractiveness of gold, which even if it produces no income and is costly to store, carries no credit risk.

Chart 1: Gold prices rise in all major currencies



Source: Bloomberg



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key takeaways

- Investors are adding gold to portfolios as a hedge and diversifier
- Supply is declining but should not impact prices
- Financial demand is now a major driver of the gold price
- We expect prices to remain supported in the current environment
- We have added gold to our strategic asset allocation framework.

Important information: Please read the important information at the end of the document.

Weekly publication of Lombard Odier – Contacts: Investment Solutions, investment-solutions@lombardodier.com

Data as of 20 July 2020 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 20 July 2020

Mining less

All of these factors create a positive environment for gold prices and add to the precious metal's attractions as a portfolio hedge. In fact, this accommodative, low-yield environment may prove historically persistent over the long term. The [Bank of England](#) and [International Monetary Fund](#) have written recently about the shock of pandemics on economies. Both studies, working with evidence starting in the 14th century, show that these events tend to depress real interest rates not for years but for decades.

Most commodity prices are a balance between supply and demand. But in the case of gold, threats to supply are sometimes overblown. In 2019, the supply from gold mines fell 1%, according to the World Gold Council. This year, the supply declined 3% in the first quarter as many mines shut during the Covid-19 crisis. The interruptions, which intensified in the second quarter, have made some deep mines uneconomical and the pipeline of new mines will not compensate. Closed refineries and more complex logistics chains also complicated supply of gold bar and coins.

However, investors should not pay too much attention to variations in gold production and supply. Unlike the oil market, gold is not in short supply. The equivalent of about 60 years of supplies are already above ground, and there is a large market for recycled gold.

Jewellery and central banks

A more convincing explanation for recent gold moves comes from the shifting sources of demand. Global demand is a balance of consumer spending on physical gold and financial investments. In line with the broad economic contraction, demand for jewellery fell significantly in the pandemic. Demand from Greater China, which accounted for 28% of purchases in 2019 as the world's largest market, fell by almost two-thirds in the first quarter. India, the second-largest market,

is still managing the pandemic with public confinements. Between them, China and India account for more than half of the world's gold consumption of physical gold.

In contrast to this falling consumer demand, investors increased gold purchases through the pandemic. The first half of 2020 saw Exchange Traded Funds buy a record 734 tonnes of gold, worth around USD 39.5 billion, a 600% increase from the same period a year ago and more than any full-year period in history, according to [World Gold Council data](#).

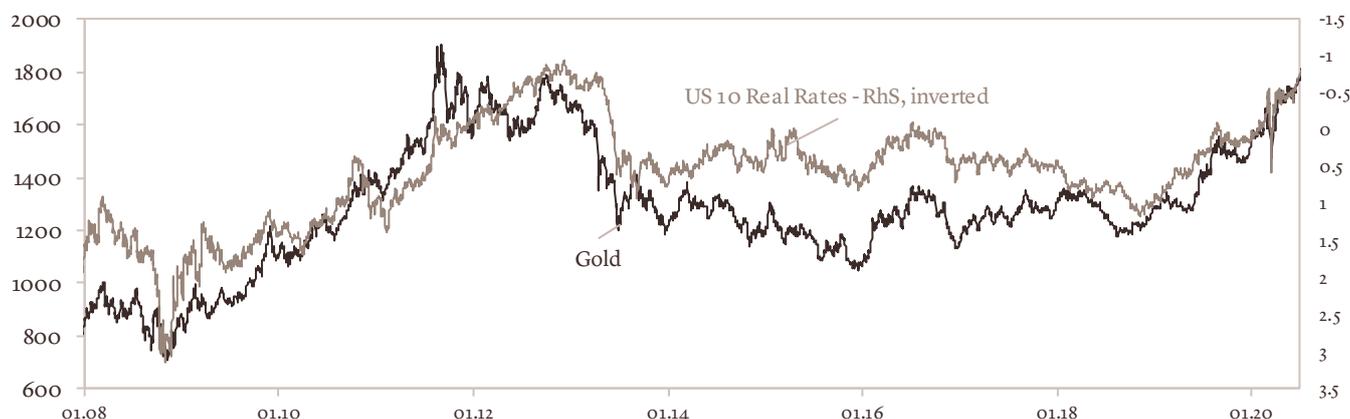
Central banks reversed their 20-year trend of net gold sales in 2010 in the wake of the financial crisis and have since remained major buyers, accounting for around 45% of mined supply in the six months through June. Still, central banks have slowed their purchases this year from record levels of 2018 and 2019, in part because Russia halted purchases in April.

Raising resilience

We have adapted our strategic approach to create a dedicated exposure to gold for clients. Gold continues to increase portfolios' resilience and strengthen diversity in asset allocations. The outlook for gold depends on this continued shift in balance from physical consumption to financial demand from investors. And investor demand depends largely on the shape of the global economic recovery, and in particular, the evolution of real yields. If, as we fully expect, the low-to-negative yield environment persists in line with sluggish post-pandemic global growth, this financial demand will likely offset the weak consumer demand for gold.

We expect gold prices to remain supported, and trade around USD 1,600 /oz a year from now, as the outlook for the global economy improves. The risk to this would be a stronger-than-expected economic recovery, persuading central banks globally that they can safely taper or halt their extraordinary stimulus spending on assets. That implies that the Federal Reserve would then be prepared to increase interest rates, although in an election year, and the current circumstances, that remains hard to imagine.

Chart 2: A Strong Correlation: Real Yields and Gold Prices



Source: Bloomberg

Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter “Lombard Odier”). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. These opinions and the information contained herein do not take into account an individual’s specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis. The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice. **Investments are subject to a variety of risks.** Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor’s base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. **This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research,** as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd’s Research Department. Nevertheless, if opinions from financial analysts belonging to the Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies. Lombard Odier recognises that conflicts of interest may exist as a consequence of the distribution of financial instruments or products issued and/or managed by entities belonging to the Lombard Odier Group. Lombard Odier has a Conflict of Interests policy to identify and manage such conflicts of interest. **European Union Members:** This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España; and **United Kingdom:** Lombard Odier (Europe) S.A. · UK Branch. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. **Notice to investors in the United Kingdom:** Lombard Odier (Europe) S.A. · UK Branch is authorised in the UK by the Prudential Regulation Authority (PRA) and is subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. **Details of the extent of our authorisation and regulation by the PRA/ regulation by the FCA are available from us on request. UK regulation for the protection of retail clients in the UK and the compensation available under the UK Financial Services Compensation Scheme does not apply in respect of any investment or services provided by an overseas person.** In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

Hong Kong: This document has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong.

Japan: This document has been approved for use by Lombard Odier Trust (Japan) Limited, which is regulated and supervised by the Financial Services Agency in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Product Transactors (No.470). This document is for general information only and is not intended for solicitation or recommendation to buy or sell any securities. Lombard Odier Trust (Japan) Limited is a member of Trust Companies Association of Japan and Japan Investment Advisors Association (Member No. 011-00862).

Singapore: This document has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this report. The recipient of this report represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

Panama: This marketing communication has been approved for use in Panamá by Lombard Odier (Panamá) Inc., an entity authorised and regulated by la Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

Israel: This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Supervisor of Banks in the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

South Africa: This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505.

Switzerland: This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

United States: Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income. This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Media: Lombard Odier would like to offer you for your information the enclosed CIO Viewpoint. In connection with the use of the enclosed document Lombard Odier kindly draws your attention to certain particular items/conditions. The information sent is for your personal use only. In case of quoting please cite Lombard Odier in no other capacity than as source of information only. For the sake of good order Lombard Odier would like to remind you that responsibility regarding quoted content and compliance with applicable regulations rests with you. The information provided does not constitute the provision of investment advice or an offer of any financial services especially not to the public.

Data protection: You may be receiving this communication you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier's data protection policy, please refer to www.lombardodier.com/privacy-policy.

© 2020 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. LOCH/LOESA/LOASIA-MWNPR-en-062019.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com
Credit institution supervised in Belgium by the Banque nationale de Belgique (BNB) and the Financial Services and Markets Authority (FSMA).

LONDON

Lombard Odier (Europe) S.A. · UK Branch²

Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom · london@lombardodier.com
The Bank is authorised and regulated in the UK by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details of the extent of our authorisation and regulation by the PRA and regulation by the FCA are available from us on request. Registered in Luxembourg No. B169 907.

Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom · london@lombardodier.com
Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

LUXEMBOURG

Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg luxembourg@lombardodier.com
Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España²

Paseo de la Castellana 66 · 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com
Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).

Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66, 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com
Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Lombard Odier (Europe) S.A. · Succursale in Italia²

Via Santa Margherita 6 · 20121 Milano · Italia milano-cp@lombardodier.com
Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

MOSCOW

Bank Lombard Odier & Co Ltd · Representative Office Moscow

Letnikovskaya st.2, bld.1 · 115114 Moscow · Russian Federation · moscow@lombardodier.com
Under the supervisory authority of the Central Bank of the Russian Federation.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France²

8, rue Royale · 75008 Paris · France. RCS PARIS B 803 905 157 · paris@lombardodier.com
Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg - No.B169 907. Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fr.

AFRICA | AMERICAS | MIDDLE EAST

ABU-DHABI

Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch

Al Maryah Island · Abu Dhabi Global Market Square · Al Sila Tower · Abu Dhabi · abudhabi@lombardodier.com
Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.

BERMUDA

Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton HM 10 · Bermuda · bermuda@lombardodier.com
Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE · dubai@lombardodier.com
Under the supervisory authority of the Central Bank of the UAE.

ISRAEL

Israel Representative Office ·

Bank Lombard Odier & Co Ltd

Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv 6688312 · Israel · telaviv@lombardodier.com
Not supervised by the Supervisor of Banks in the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office ·

Bank Lombard Odier & Co Ltd

140 West Street · Sandton · Johannesburg 2196 · South Africa
johannesburg@lombardodier.com
Authorised financial services provider Registration number 48505.

MONTEVIDEO

Lombard Odier (Uruguay) SA

Luis Alberto de Herrera · Torre 2 · Oficina 2305
11300 Montevideo · Uruguay
montevideo@lombardodier.com
Supervised by Banco Central del Uruguay.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Goodman's Bay Corporate Centre · West Bay Street · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.
Lombard Odier (Panama) Inc.
Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

ASIA - PACIFIC

HONG KONG

Lombard Odier (Hong Kong) Limited

3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com
A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

SINGAPORE

Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore 048619 · singapore@lombardodier.com
A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).

¹ Private bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

² Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.