The forces driving up the price of gold

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After seeing gold prices rise impressively in recent years, our clients have asked whether less than obvious factors are driving the upswing.

What stands out is that gold prices climbed despite a rising dollar and higher U.S. bond yields in the past few years. Moreover, gold's market performance even exceeded that of the S&P 500 Index in 2024. This strong performance carried into this year, and the price of gold crossed the $3,000 mark in March. Of course, the decline in U.S. Treasury yields and a weaker U.S. dollar so far this year bode well for the value of gold. Still, as mentioned above there's not always a strong negative correlation between the former and the latter. Nevertheless, given the speed of gold's latest move, we would not be surprised to see a slowdown in price momentum. So, what have been the major forces at play?

In short, we see a combination of geopolitical developments, long-term trends, and recent changes in market behavior that have helped fuel gold's rise:

1) It is possible that gold is benefiting from the uncertainty surrounding the implications of fundamental shifts to the geopolitical landscape and by extension the change in the world order. The increased likelihood of trade wars, coupled with less desire from the United States to allocate resources to protect its allies, are contributing to persistent heightened geopolitical risks. They also reinforce the appeal of gold for portfolio diversification. Our portfolios continue to hold allocations to gold, primarily because of the probability of chaos detailed in our Macroeconomic Scenario Analysis.

2) One thing is certain: Central banks have been net buyers of gold for 15 consecutive years, and they hold a fifth of all the gold that has been mined throughout history, according to the World Gold Council. Central banks also have actively increased their gold reserves, a trend that accelerated significantly following the outbreak of war in Ukraine in 2022. The freeze of Russia's reserve assets has led to a decline in international U.S. dollar reserve assets, which has been matched by a rise in demand for gold reserves from central banks (see chart on next page). What's notable is that central banks in emerging markets, particularly in Asia and Eastern Europe, have been driving this trend.

Gold is attractive to central banks because it diversifies their reserve portfolios, is highly liquid, and carries no counterparty risk. Bitcoiners consistently highlight that the supply of bitcoin is scarce due to its supply cap. Importantly, gold also is a scarce element and above-ground stocks grow at a slow rate. According to the World Gold Council, gold mine production adds approximately 3,500 tons per year, equivalent to an annual 2% increment. In the current environment, these qualities make gold an attractive asset, and official purchases are expected to remain a supportive market force in 2025.

3) Another interesting development is that after four years of outflows, gold exchange-traded funds (ETFs) have seen three consecutive months of inflows (including March), which may signal a shift in risk appetite. It's still early in the year, but a reversal of four years of gold ETF outflows could bring further support to gold prices.

4) Sticky inflation and economic jitters enhance gold's appeal compared with traditional havens such as bonds or the U.S. dollar. Our investment team believes that inflationary pressures are going to persist for the foreseeable future.

Conclusion: changes in the gold market bear close scrutiny as they could reflect major shifts in the geopolitical arena. Central banks remain significant holders of gold, as it helps to diversify their reserve mix. Steady central-bank

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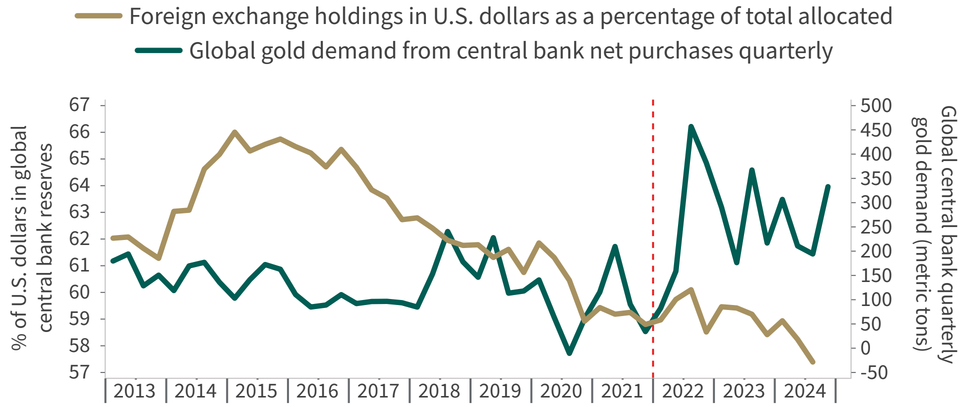
purchases will continue to provide a supportive floor for demand. ETF buying turned decisively into inflows this year. While gold may face some consolidation due to the speed of its latest move, we believe the combination of geopolitical and economic uncertainty along with sticky inflation and a possibly weaker U.S. dollar will continue to provide tailwinds to the demand for gold.

Share of U.S. dollar in international central bank reserves (%) and global gold demand from central banks (metric tons)



Source: Bloomberg, Macrobond and Cougar Global Investments as of Sept. 30, 2024 for foreign exchange holdings and as of Dec. 31, 2024 for gold demand by central banks.

MACROBOND

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An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: non-diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error. All investments are subject to risk. Asset allocation and diversification do not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

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An exchange-traded fund (ETF) is a type of security that tracks a market index, sector, commodity, or other assets, but which can be bought or sold on a stock exchange the same way a regular stock or other security can. An ETF can be structured to track a wide variety of securities, including stocks, bonds, individual commodities, diverse aggregations of securities, and specific investment strategies.

Fund flow is the net of all cash inflows and outflows into and out of a particular financial asset, sector, or index. It typically is measured on a quarterly or monthly basis. Investors and others look at the direction of fund flows for indications about the health of specific securities and sectors or the overall market.

Sticky is a term used to describe measured data that is slow to change, in contrast to faster-changing or more variable data.

Tailwind is a term used to describe events or market forces that exert a positive influence on an investment's performance.

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The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

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Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

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