

What Previous Gold Bull Markets Can Teach Us About Gold Today

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The last bull market for gold ended in September of 2011 when prices peaked at \$1,921 an ounce. After that, investors turned their focus to riskier assets, such as equities, which have staged a bull run of their own.¹ This year's nearly 17% rise in gold prices is prompting investors to ask whether gold is in the early stages of a new, long-term bull market or if it is something closer to a dead cat bounce.²

To determine where the precious metal might be heading and if a rally is forming, I thought it would be helpful to study the financial market conditions that set the stage for the gold rallies in the 1970s and the early 2000s. For this comparison, I looked at the interplay of three important assets — gold, crude oil and US equities — in the early 1970s, the late 1990s as well as the most recent history. As Mark Twain is reported to have said, "History doesn't repeat itself, but it often rhymes."

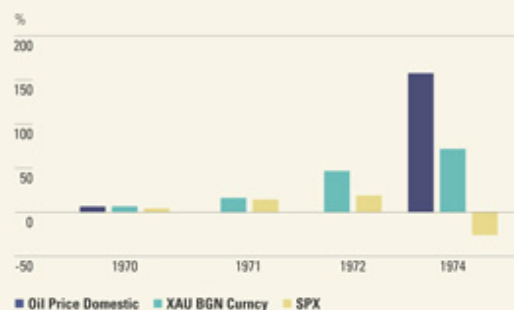
What we find is that the backdrop that impacted asset classes in these two time periods bears some striking similarities to the performance patterns we see today.

Figure 1: Gold's Rally in Perspective



Source: Bloomberg Finance L.P., State Street Global Advisors (SSGA).
Prices displayed are quarterly.

Figure 2: Gold Did Well Every Year in the Early 1970's
1970-1974



Source: Bloomberg Finance L.P., SSGA.

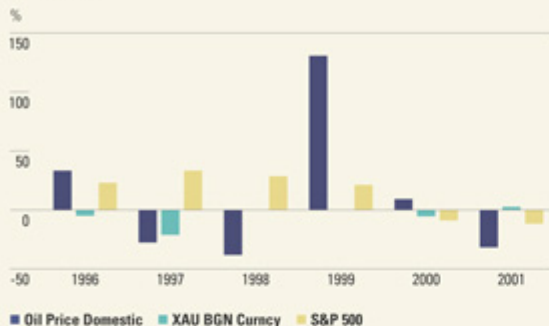
The period of 1970 to 1974 marked the start of a bull market. The price of gold soared 2,317% from \$35.17 an ounce on Dec. 31, 1969, to \$850 an ounce on Jan. 21, 1980.³ What set the stage for such strong gold performance?

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Figure 3: Gold Performance Was Mixed in the Late 1990's 1996–2001



Over this time period oil prices were steady, but they suddenly spiked 150% in 1999 while equities, which were rising moderately, plunged 20%. Through it all, gold began its steady march higher.

On the geopolitical front, US President Jimmy Carter made what has become a famous speech in 1979 about the crisis of confidence in America — implying that the country was in dire need of change.⁴

At the same time, the US faced a strained relationship with Russia, which had invaded Afghanistan, and was grappling with an impending oil war between Iran and Iraq, as well as the hostage crisis in Iran.

Today, we are facing a **divisive presidential election**, where candidates are seizing the opportunity to posture themselves as the change that America needs. The US is once again managing a strained relationship with Russia, the situation remains volatile in the Middle East and, instead of a hostage crisis in Iran, headlines talk of terror-related kidnappings by ISIS.

One thing is identical between the two periods — extreme investor uncertainty.

When investors are anxious, they may turn to the perceived stability of US Treasuries or gold for protection. But as we have seen US Treasury yields fall to historic lows, gold may **become more appealing** to investors.

From December 1995 to September 2001, gold prices rose 400%.⁵

During this period, oil prices were extremely volatile, plunging as the Asian Financial Crisis impacted global economic growth. Then, fueled by demand from China and India, oil prices jumped in 1999 and stocks, which had been recording modest gains, were negative in 2000 and 2001.

Figure 4: Gold Struggled Since 2013, But is Performing Better This Year 2009–2016



Gold faced a bear market that started in early 1996 when prices were near \$400 an ounce and lasted until 1999, when gold prices fell to nearly \$250 an ounce.⁶ While gold remained volatile from 1999 to 2000, this period saw the introduction of the euro, the official currency of the Eurozone, which became a competing asset to gold.

Gold's ability to hold \$250 an ounce eventually provided a floor of support for prices to rally in 2001 in the aftermath of September 11.⁷

In echoes of what we saw in the early 1970s and late 1990s, the 2009 to 2016 chart shows that this year's gold price advances are following a period when equity markets posted moderate gains but then notched negative returns. We are also dealing with significant amounts of uncertainty with regards to the direction of oil prices. While the 1970s were marked by surging oil prices, today is marked by plunging ones. There are questions about what this means for global economic growth and inflation.

As I've discussed in **earlier blogs**, there are numerous factors driving investor demand for gold, including fading equity market returns, market volatility and the fact that gold's zero yield is no longer a barrier to entry for investors who are looking for ways to deal with low to negative interest rates.

At State Street Global Advisors, we expect that market volatility will persist, that interest rates could remain lower for longer and that investor appetite for risky assets may remain muted. Given these expectations and the way that gold's performance in 2016 has echoed that of previous gold bull markets, it might be time for investors to reevaluate the strategic role that gold may play in a portfolio and its potential to add ballast in today's uncertain climate.

Investing in commodities entails significant risk and is not appropriate for all investors.

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¹ Bloomberg Finance L.P., as of 4/25/2016.

² Bloomberg Finance L.P., as of 4/25/2016.

³ Bloomberg.

⁴ PBS.org, "Crises of Confidence", as of 1979.

⁵ Bloomberg.

⁶ Bloomberg.

⁷ Bloomberg Finance L.P., SSGA. Date: Price of gold from 1980 – 2001.

Glossary

S&P 500 Index (SPX) A popular benchmark for U.S. large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization.

XAU The Gold Spot price is quoted as US Dollars per Troy Ounce

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