

## SPDR<sup>®</sup> BLOG

### The Role of Gold in Today's Multi-Asset Portfolio

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Traditionally, investors have used gold tactically with an aim to help preserve wealth in volatile markets or in times of elevated inflation or persistent US dollar weakness. But if we re-evaluate the role of gold through a different lens, we see it can potentially be a valuable [strategic asset in all markets](#).

When building a multi-asset portfolio, investors should consider the potential or forecasted risk-return profile of a particular asset class or market segment, as well as how it will behave relative to other investments. Though asset classes with high forecasted risk-adjusted returns are obviously preferred, investors should also consider looking for asset classes that move differently relative to one another.

With these factors in mind, let's look at four potential benefits of strategically allocating to gold in a multi-asset portfolio:

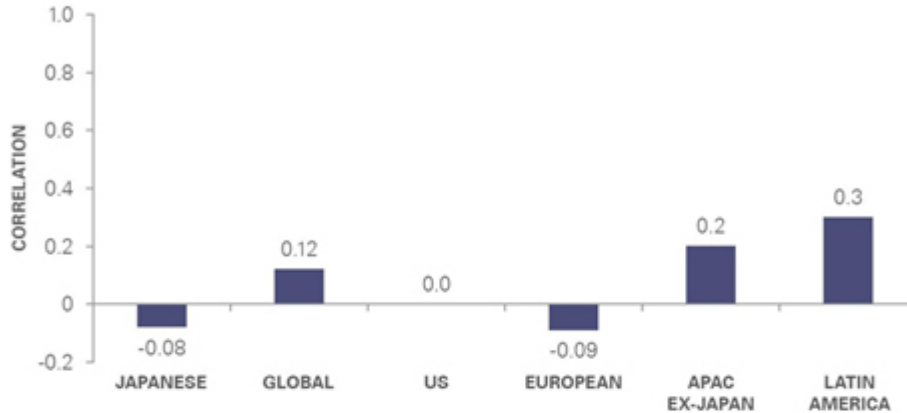
- Increased portfolio diversification
- Protection in a downturn
- Preserved purchasing power
- Enhanced risk-adjusted returns

#### **1. Increased portfolio diversification**

To help control risk, investors diversify their portfolios by holding a wide array of assets that perform differently from one another under various market conditions. A low correlation among the asset classes would lower portfolio volatility and therefore, all else being equal, increase portfolio diversification and enhance the overall risk-adjusted return of the portfolio.

As shown below, the very low or negative historical correlations of gold to major equity markets highlight the potential diversification benefits of adding gold to a multi-asset portfolio.

**Gold's Low or Negative Correlation with Major Equity Markets Since 2000**



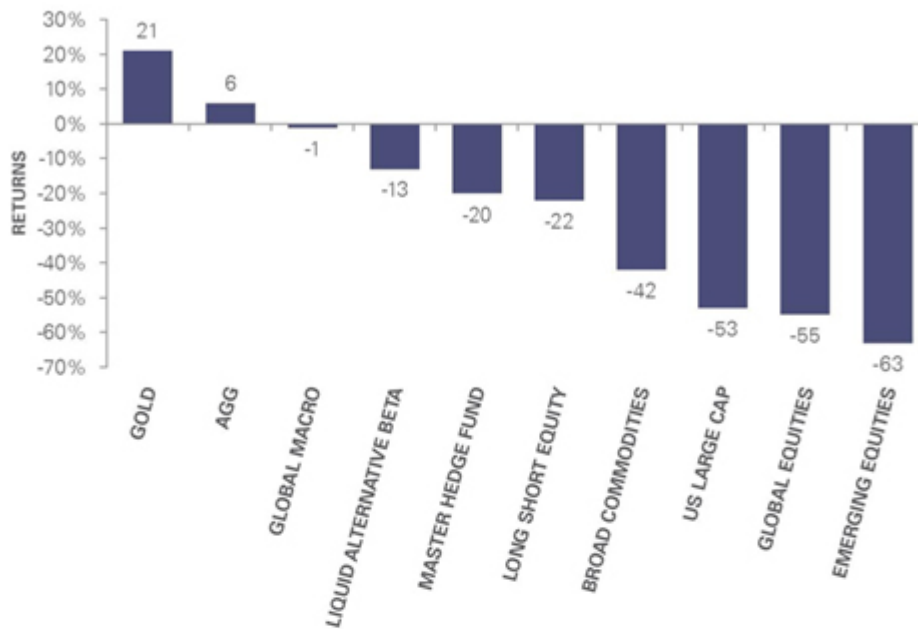
Source: Bloomberg Finance L.P., State Street Global Advisors, 1/1/2000-9/30/2017

Correlations are calculated from monthly returns in USD. Asset classes are represented by the following indices—Japanese: MSCI Japan Index; MSCI AC World Daily TR Index; US: S&P 500® Index; European: MSCI Europe Index; APAC ex Japan: MSCI ASIA PAC Ex Japan Index; Latin America: MSCI Emerging Markets Latin America Index; Gold: LBMA Gold Price PM.

**2. Protection in a downturn**

Gold has historically been used to provide potential tail risk mitigation during times of market stress, as it has tended to rise during stock market pullbacks. As shown below, gold delivered competitive returns and outperformed other asset classes during the 2007-2009 Global Financial Crisis. Many asset classes fell in tandem, but gold's performance was positive. In addition, gold has delivered competitive returns and outperformed other asset classes during a number of other similar Black Swan events.

### Total Return of Asset Classes During the Financial Crisis



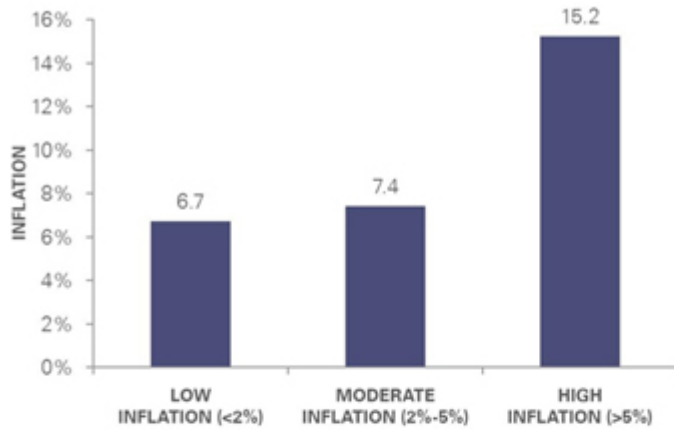
Source: Bloomberg Finance L.P., 10/1/2007-3/31/2009. Past performance is not a guarantee of future results. Performance above does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling exchange traded funds. Performance above is not meant to represent the performance of any investment product.

Asset classes are represented by the following indices—Gold: GOLDLNPM Index; Agg: Bloomberg Barclays US Aggregate Index; Global Macro: Credit Suisse Global Macro Index; Liquid Alternative Beta: Credit Suisse Liquid Alternative Beta Index; Master Hedge Fund: Credit Suisse Master Hedge Fund Index; Long Short Equity: Credit Suisse Long Short Equity Index; Broad Commodities: Bloomberg Commodity Index; US Large Cap: S&P 500 Index; Global Equities: MSCI World Index; Emerging Equities: MSCI Emerging Markets Index.

### 3. Preserve purchasing power

Gold has been a long-favored inflation hedge—and for good reason. Gold has exhibited historical effectiveness in preserving purchasing power in various inflationary environments.

### Gold Returns in Different Inflation Scenarios



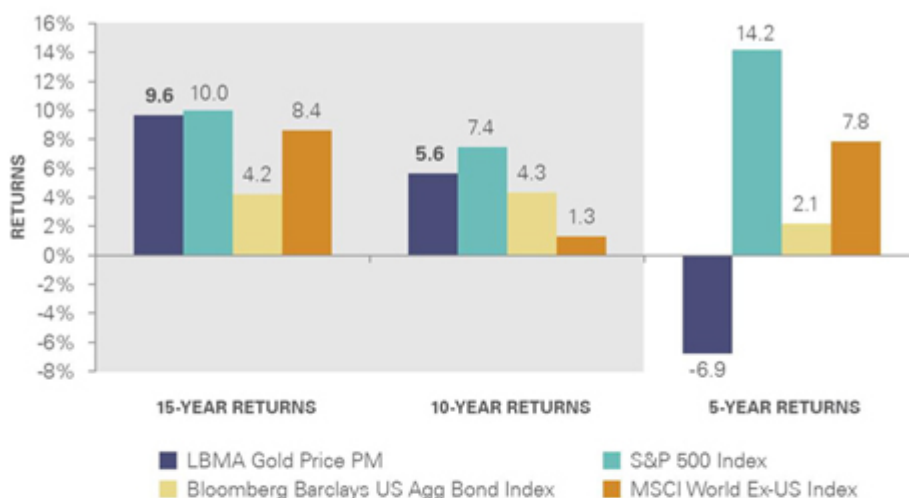
Source: Bloomberg Finance L.P., State Street Global Advisors, data from 1/31/1970-9/30/2017. Past performance is not a guarantee of future results. Performance above does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling exchange traded funds. Performance above is not meant to represent the performance of any investment product.

Computed using average monthly gold returns and US CPI Figures from 1/31/1970 to 9/30/2017.

### 4. Enhanced returns

In addition to diversification and downside protection, a strategic allocation to gold can also potentially enhance long-term portfolio returns. Take a look at the chart below and gold's performance over the longer time horizons:

## Annualized Performance of Gold vs. Major Asset Classes



Source: Bloomberg Finance, L.P., State Street Global Advisors, as of 9/30/2017

## How much should you allocate to gold?

We recently researched<sup>1</sup> the impacts of allocations between 2 and 10% to the SPDR Gold Shares (GLD<sup>®</sup>) ETF in a hypothetical multi-asset portfolio between January 1, 2005 and September 30, 2017. We found a 10% strategic allocation to GLD would have improved the portfolio's cumulative risk-adjusted returns and lowered its maximum drawdown, as compared to a portfolio without any gold-backed investments.

As the size and number of investable asset classes continue to grow, we believe savvy investors should position gold in a more permanent, strategic role within their multi-asset portfolios.

<sup>1</sup>Frederic Dodard and Abigail Greenway, A Case for Global Diversification: Harnessing the Global Multi-Asset Market Portfolio, IQ Insights, State Street Global Advisors ISG EMEA, as of 9/30/2017—Updated by George Milling-Stanley, Head of Gold Strategy, SPDR ETFs, Robin Tsui, APAC Gold Strategist, SPDR ETFs, Howard Wen, Senior Gold Strategist, SPDR ETFs and Diego Andrade, Gold Strategist, SPDR ETFs through 9/30/2017

### Definitions

#### Black Swan

An event that is beyond what is normally in the realm of what is expected and is thus very difficult to foresee. The term was made popular by Nassim Nicholas Taleb, a finance professor and trader who has

authored a number of books on uncertainty, including "The Black Swan," a discussion on the impact of random events.

#### **Bloomberg Barclays US Aggregate Bond Index**

A benchmark that provides a measure of the performance of the US dollar denominated investment grade bond market. The "Agg" includes investment-grade government bonds, investment-grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the US.

#### **Bloomberg Commodity Index**

A broadly diversified commodity price index distributed by Bloomberg Indexes that tracks 22 commodity futures and seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index.

#### **Credit Suisse Global Macro Index**

A subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of dedicated short bias funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets.

#### **Credit Suisse Liquid Alternative Beta Index**

Using only liquid securities, the index seeks to replicate the return of the overall hedge fund industry, as represented by the Credit Suisse Hedge Fund Index. The index reflects the combined returns of the individual Liquid Alternative Beta strategy indices—Long/Short, Event Driven, Global Strategies, Merger Arbitrage and Managed Futures—weighted according to their respective strategy weights in the Credit Suisse Hedge Fund Index.

#### **Credit Suisse Long Short Equity Index**

A subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of dedicated short bias funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations.

#### **Credit Suisse Master Hedge Fund Index**

An asset-weighted hedge fund index that includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 8,000 funds and consists only of funds with a minimum of US\$50 million under management, a 12-month track record and audited financial statements.

#### **CPI, or Consumer Price Index**

A widely used measure of inflation at the consumer level that helps to evaluate changes in cost of living.

#### **GOLDLNPM Index**

An index that tracks the performance of gold.

#### **Global Financial Crisis**

The economic crisis that occurred from 2007-2009 that is generally considered biggest economic challenge since the Great Depression of the 1930s. The GFC was triggered largely by the sub-prime mortgage crisis, which led to the collapse of systemically vital US investment banks such as Lehman Brothers. The crisis began with the collapse of two Bear Stearns hedge funds in June 2007, and the stabilization period began in late 2008 and continued until the end of 2009.

**LBMA Gold Price**

The LBMA Gold Price is determined twice each business day—10:30 a.m. London time (i.e., the LBMA Gold Price AM) and 3:00 p.m. London time (i.e., the LBMA Gold Price PM) by the participants in a physically settled, electronic and tradable auction.

**MSCI ACWI Index, or MSCI All Country World Index**

A free-float weighted global equity index that includes companies in 23 emerging market countries and 23 developed market countries and is designed to be a proxy for most of the investable equities universe around the world.

**MSCI Asia PAC ex Japan**

Captures large and mid cap equities in 10 countries across the Asian region, not including Japan.

**MSCI Emerging Markets Index**

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets countries. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Emerging Markets Latin America Index**

Captures large and mid cap representation across 5 countries in Latin America.

**MSCI Europe**

A benchmark capturing large- and mid-cap representation across 15 developed market countries in Europe.

**MSCI Japan**

A benchmark designed to measure the performance of the large- and mid-cap segments of the Japanese equity market.

**S&P 500 Index**

The S&P 500, or the Standard & Poor's 500, is an index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

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ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

Diversification does not ensure a profit or guarantee against loss.

Forecasted asset class returns are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Foreign investments involve greater risks than US investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

The use of leverage, as part of the investment process, can multiply market movements into greater changes in an investment's value, thus resulting in increased volatility of returns.

Securities lending programs and the subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investments held in the collateral may decline in value and may at any point be worth less than the original cost of that investment.

Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Passive management and the creation/redemption process can help minimize capital gains distributions.

Commodity funds may be subject to greater volatility than investments in traditional securities. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors, such as weather, disease, embargoes, and international economic and political developments.

REIT funds may be subject to a high degree of market risk due to lack of industry diversification. REIT funds may be subject to other risks including, but not limited to, changes in real estate values or economic conditions, credit risk and interest rate fluctuations and changes in the value of the underlying property owned by the trust and defaults by borrowers.

Actively managed ETFs do not seek to replicate the performance of a specified index.

ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Risks associated with investing in the natural resources sector include large price volatility due to non-diversification and concentration in natural resources companies.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

The use of short selling entails a high degree of risk, may increase potential losses and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to short selling.

Select Sector SPDR Funds bear a higher level of risk than more broadly diversified funds. All ETFs are subject to risk, including the possible loss of principal. Sector ETFs products are also subject to sector risk and non-diversification risk, which generally results in greater price fluctuations than the overall market.



Risk associated with equity investing includes stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

Investments in smaller companies may involve greater risks than those in larger, better known companies.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

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

Bond funds contain interest rate risk (as interest rates rise bond prices usually fall). There are additional risks for funds that invest in mortgage-backed and asset-backed securities, including the risk of issuer default, credit risk and inflation risk. Funds that invest in lower-quality debt securities generally offer higher yields, but also carry more risk. The municipal market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a debt security to decrease. A portion of the dividends you receive may be subject to federal, state or local income tax or may be subject to the federal alternative minimum tax.

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